

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 1997

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-19266

ALLIED HEALTHCARE PRODUCTS, INC.
[EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER]
DELAWARE 25-1370721
(STATE OR OTHER (I.R.S. EMPLOYER
JURISDICTION OF IDENTIFICATION
INCORPORATION OR NO.)
ORGANIZATION)
1720 SUBLETTE AVENUE 63110
ST. LOUIS, MISSOURI (ZIP CODE)
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (314) 771-2400

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
Name of each exchange
TITLE OF EACH CLASS ON WHICH REGISTERED

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Common Stock
Preferred Stock
Preferred Stock Purchase Rights
(Title of class)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes. No.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of September 23, 1997, the aggregate market value of the voting stock held by non-affiliates (5,586,605 shares) of the Registrant was \$42,947,026 (based on the closing price, on such date, of \$7.6875 per share).

As of September 23, 1997, there were 7,806,682 shares of common stock, \$0.01 par value (the "Common Stock"), outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement dated October 10, 1997 (portion) (Part III)

ALLIED HEALTHCARE PRODUCTS, INC.

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PART I

ITEM 1. BUSINESS

GENERAL

Allied Healthcare Products, Inc. ("Allied" or the "Company") manufactures a variety of respiratory products used in the health care industry in a wide range of hospital and alternate site settings, including sub-acute care facilities, home health care and emergency medical care. The Company's product lines include respiratory therapy equipment, medical gas construction equipment and emergency medical products. The Company believes that it maintains significant market shares in selected product lines.

Allied offers a broad spectrum of respiratory therapy products for use in the trauma, hospital, home and sub-acute care settings. The Company's products are marketed under well-recognized and respected brand names to hospitals, hospital equipment dealers, hospital construction contractors, home health care dealers, emergency medical products dealers and others. Allied's product lines include:

Respiratory Therapy Equipment	Medical Gas Equipment
respiratory care/anesthesia	medical gas system construction products
home respiratory care	medical gas system regulation products
Emergency Medical Products	disposable oxygen and specialty gas cylinders
respiratory/resuscitation	portable suction equipment
trauma and patient handling products	

The Company's principal executive offices are located at 1720 Sublette Avenue, St. Louis, Missouri 63110, and its telephone number is (314) 771-2400.

MARKETS AND PRODUCTS

In fiscal 1997, respiratory therapy equipment, medical gas equipment and emergency medical products represented approximately 54%, 36% and 10%, respectively, of the Company's net sales. The Company operates in a single industry segment and its principal products are described in the following table:

PRODUCT	DESCRIPTION	PRINCIPAL BRAND NAMES	PRIMARY USERS
RESPIRATORY THERAPY EQUIPMENT			
Respiratory Care/Anesthesia Products	Ventilators; large volume compressors; ventilator calibrators; humidifiers, spirometers and monitoring systems	Bear; Timeter; BiCore	Hospitals and sub-acute care facilities
Home Respiratory Care Products	Oxygen concentrators; bottled oxygen equipment; pressure regulators; nebulizers; portable large volume compressors; portable suction equipment and portable ventilators	Timeter; B&F; Schuco; Bear	Patients at home
MEDICAL GAS EQUIPMENT			
Construction Products	In-wall medical gas system components; central station pumps and compressors and headwalls	Chemetron; Oxequip	Hospitals and sub-acute care facilities
Regulation Devices	Flowmeters; vacuum regulators; pressure regulators and related products	Chemetron; Oxequip; Timeter	Hospitals
Disposable Cylinders	Disposable oxygen and specialty gas cylinders	Lif-O-Gen	First aid providers and substance abuse compliance personnel
Suction Equipment	Portable suction equipment and disposable suction canisters	Gomco	Hospitals and sub-acute care facilities
EMERGENCY MEDICAL PRODUCTS			
Respiratory/Resuscitation Products	Demand resuscitation valves; bag mask resuscitators; emergency transport ventilators and oxygen products	LSP; Omni-Tech	Emergency service providers
Trauma and Patient Handling Products	Spine immobilization products; pneumatic anti-shock garments and trauma burn kits	LSP; Design Principles	Emergency service providers

RESPIRATORY THERAPY EQUIPMENT

MARKET. Respiratory therapy equipment is used in the treatment of chronic respiratory and pulmonary disease and temporary respiratory distress. Conditions treatable with respiratory therapy products include asthma and respiratory problems associated with AIDS, lung cancer and trauma. The Company believes that sales of respiratory therapy products will benefit from the aging population, improved diagnosis, technology advancements and an increased recognition and treatment of respiratory illnesses. Allied expects that the global home respiratory care equipment market will continue to be a growth area as cost containment pressures continue to encourage a shift in the delivery of health care from the hospital to lower cost alternate site settings, such as the home, while technology advancements make home treatment of respiratory patients possible.

Respiratory therapy equipment is used in both hospitals and alternate site settings. Sales of respiratory care and anesthesia products are made through distribution channels focusing on hospital and sub-acute care facilities. Sales of home respiratory therapy products are made through durable medical equipment dealers, through telemarketing, independent sales representatives, and by contract sales with national chains.

The Company believes that it holds a significant share of the U.S. market and selected foreign markets for certain respiratory therapy equipment, including large volume compressors and ventilator calibrators. The Company also believes that it has the leading share of the U.S. market for portable suction equipment and has a significant market presence in other areas, including CO2 absorbent, adult ventilation, bottled oxygen equipment and accessories. Allied intends to continue to emphasize the marketing and sale of home respiratory care products.

RESPIRATORY CARE/ANESTHESIA PRODUCTS. The Company manufactures and sells a broad range of products for use in respiratory care and anesthesia delivery. The Company markets a full line of critical care ventilators, humidifiers and monitoring systems to hospitals, sub-acute care facilities and home health care dealers. Ventilators ease the work of patient breathing while monitoring other pulmonary functions for the care provider. The Company manufactures ventilators designed for both infants and adults. In August 1996, the Company received 510k approval from the United States Food and Drug Administration and introduced the Bear Cub 750R, a new infant ventilator which utilizes a unique patented "volume limits" technology which establishes an upper boundary to minimize the potential risk of overinflation of an infant's lungs.

In addition, the Company manufactures large volume compressors, which are utilized to power volume ventilators and to convert certain drugs into an aerosol form for delivery through the upper airways, and ventilator calibrators, which are used primarily by hospital biomedical departments for testing ventilators for compliance with manufacturers' specifications. The Company's ventilator calibrator is referred to in virtually every major ventilator manufacturer's operating and maintenance manuals.

The Company's other respiratory care/anesthesia products include CO2 absorbent which is used to absorb carbon dioxide in anesthesia machines that deliver gas through a closed system mask covering the patient's nose and mouth, oxygen tents, spirometers used to test lung capacity for purposes of detecting and analyzing lung disease, oxygen timers used to measure oxygen usage and ultrasonic nebulizers used to convert drugs into a fine mist for delivery to the lungs.

HOME RESPIRATORY CARE PRODUCTS. Home respiratory care products represent one of Allied's potential growth areas. Allied's broad line of home respiratory care products includes oxygen concentrators, bottled oxygen equipment, pressure regulators, portable large volume compressors, portable suction equipment and portable ventilators.

Allied's oxygen concentrators, bottled oxygen equipment and pressure regulators are all used in the delivery of home oxygen therapy. Oxygen concentrators take air from a room and convert it into approximately 95% pure oxygen. The Company believes that the market for oxygen concentrators will experience substantial growth, particularly in markets outside of the United States. Bottled oxygen equipment includes lightweight aluminum cylinders containing pure oxygen. This equipment is utilized by mobile patients when they leave the

home. Pressure regulators manufactured by the Company, similar to those that Allied sells in the hospital market, are used on these aluminum cylinders.

Allied's portable large volume compressors are used to provide air to drive ventilators and to deliver aerosolized drugs in the home. Portable suction equipment is used in the home by people who have had tracheotomies and have had tracheal tubes temporarily inserted. Suctioning is used intermittently to keep the artificial airway clear.

The Company manufactures critical care ventilators and humidifiers which are sold to patients for use in the home. The Company also offers an extensive line of plastic disposable medical products, including tubing, humidifiers, cannulas, oxygen masks, aerosol masks used with nebulizers and ventilator circuits. In addition, Allied manufactures compressor nebulizers which convert liquid medicine into airborne particles for application deep into the lungs. Compressor nebulizers are primarily used by children suffering from asthma, cystic fibrosis and other breathing disorders.

MEDICAL GAS EQUIPMENT

MARKET. The market for medical gas equipment consists of hospitals and, to a lesser degree, alternate site settings, as well as durable medical equipment dealers and other users of portable equipment. Medical gas system construction products and regulation devices are sold to hospitals and sub-acute care facilities. Medical gas equipment is used to deliver oxygen, air and suction to patients for brief or extended periods in settings ranging from intensive-care facilities in hospitals to restaurants and industrial facilities. The Company's medical gas equipment product line is subject to severe cost containment pressures as managed care programs increasingly direct patients to lower cost alternate site settings. The Company's medical gas products are sold directly to hospitals, hospital construction contractors and durable medical equipment dealers. Principal customers for disposable oxygen and specialty gas cylinders include substance abuse compliance personnel and customers that require oxygen for infrequent emergencies. Portable suction equipment is sold to health care facilities and durable medical equipment dealers.

The Company believes that it holds a leading share of the U.S. market for in-wall components, and that its Chemetron and Oxequip lines are well recognized by hospital construction contractors. The Company believes that its in-wall components are installed in more than 3,000 hospitals in the United States. The Company also believes that it holds a significant share of the U.S. market for flowmeters, vacuum regulators and pressure regulators and many medical gas system regulation and portable suction equipment devices. Allied tracks its market position through a proprietary database developed by management that registers and tracks hospital construction projects in the U.S. market and enables the Company to determine pricing trends, volume trends and market shares for each of Allied's sales territories and for the U.S. market as a whole.

Allied believes that its installed base of equipment in this market will continue to generate follow-on sales. Since hospitals typically do not have more than one medical gas system, the manufacturer of the existing installed system has a competitive advantage in follow-on sales of such products to a hospital in which its system is installed. Accordingly, the Company's existing installed equipment generates continued demand from its customers for replacement products and extensions of existing systems, which constitute a significant percentage of the Company's total sales of medical gas products. The Company also believes that most hospital and sub-acute care facility construction spending is for expansion and renovation of existing facilities. Many hospital systems and individual hospitals undertake major renovations to upgrade their operations, to improve the quality of care they provide, reduce costs and to attract patients and personnel. The Company expects that its installed equipment base will continue to provide the Company with a significant competitive advantage in the hospital renovation market.

MEDICAL GAS CONSTRUCTION PRODUCTS. Allied's medical gas system construction products consist of in-wall medical gas system components, central station pumps and compressors and headwalls. These products are typically installed during construction or renovation of a health care facility and are built in as an integral part of the facility's physical plant. Typically, the contractor for the facility's construction or renovation purchases medical

gas system components from manufacturers and ensures that the design specifications of the health care facility are met.

Allied's in-wall components, including outlets, manifolds, alarms, ceiling columns and zone valves, serve a fundamental role in medical gas delivery systems.

Central station pumps and compressors are individually engineered systems consisting of compressors, reservoirs, valves and controls designed to drive a hospital's medical gas and suction systems. Each system is designed specifically for a given hospital or facility by the Company, which purchases pumps and compressors from suppliers. The Company's sales of pumps and compressors are driven, in large part, by its share of the in-wall components market.

Headwalls are prefabricated wall units for installation in patient rooms and intensive care areas which house medical gas, suction and electrical outlets and fixtures for monitoring equipment. These prefabricated walls also incorporate designs for lighting and nurse call systems. Headwalls are built to customer design specifications and eliminate the need for time-consuming installation of fixtures and outlets and related piping and wiring directly into the hospital wall. During fiscal 1995, the Company introduced the Trio headwall, which includes a detachable face plate that permits a health care provider to switch among one of three gases, thus providing greater flexibility to a hospital or sub-acute care facility.

MEDICAL GAS REGULATION DEVICES. The Company's medical gas system regulation products include flowmeters, vacuum regulators and pressure regulators, as well as related adapters, fittings and hoses which measure, regulate, monitor and help transfer medical gases from walled piping or equipment to patients in hospital rooms, operating theaters or intensive care areas. The Company's leadership position in the in-wall components market gives the Company a competitive advantage in marketing medical gas system regulation devices that are compatible with those components. Hospitals that procure medical gas system regulation devices from the Company's competitors were previously required to utilize adapters in order to use Allied's in-wall components. However, in August 1996, the Company introduced its patented Connect II universal outlet, the first such outlet to allow a hospital to utilize medical gas system regulation devices and in-wall components produced by different manufacturers.

DISPOSABLE OXYGEN AND SPECIALTY GAS CYLINDERS. Disposable oxygen cylinders are designed to provide oxygen supplies for short periods in emergency situations. Since they are not subjected to the same pressurization as standard containers, they are much lighter and less expensive than standard gas cylinders. The Company markets filled disposable oxygen cylinders through industrial safety distributors and similar customers, principally to first aid providers, restaurants, industrial plants and other customers that require oxygen for infrequent emergencies. The Company also markets disposable cylinders to specialty gas manufacturers for use by substance abuse compliance personnel.

PORTABLE SUCTION EQUIPMENT AND SUCTION CANISTERS. Portable suction equipment is typically used when in-wall suction is not available or when medical protocol specifically requires portable suction. The Company also manufactures disposable suction canisters, which are clear containers used to collect the fluids suctioned by in-wall or portable suction systems. The containers have volume calibrations which allow the medical practitioner to measure the volume of fluids suctioned.

EMERGENCY MEDICAL PRODUCTS

MARKET. Emergency medical products are used in the treatment of trauma-induced injuries. The Company's emergency medical products provide patients resuscitation or ventilation during cardiopulmonary resuscitation or respiratory distress as well as immobilization and treatment for burns. The Company believes that the trauma care venue for health care services is positioned for growth in light of the continuing trend in the health care industry towards providing health care outside the traditional hospital setting. The Company also expects that other countries will develop trauma care systems in the future, although no assurance can be given that

such systems will develop or that they will have a favorable impact on the Company. Sales of emergency medical products are made through specialized emergency medical products distributors.

The Company believes it is a market share leader with respect to certain of its emergency medical products, including demand resuscitation valves, portable resuscitation systems and autovents.

RESPIRATORY/RESUSCITATION PRODUCTS. The Company's respiratory/resuscitation products include demand resuscitation valves, portable resuscitation systems, bag masks and related products, emergency transport ventilators, precision oxygen regulators, minilators and multilators and humidifiers.

Demand resuscitation valves are designed to provide 100% oxygen to breathing or non-breathing patients. In an emergency situation, the valve can be used with a mask or tracheotomy tubes and operates from a standard regulated oxygen system. The Company's portable resuscitation systems provide fast, simple and effective means of ventilating a non-breathing patient during cardiopulmonary resuscitation and 100% oxygen to breathing patients on demand with minimal inspiratory effort. The Company also markets a full line of disposable and reusable bag mask resuscitators. Bag mask resuscitators are available in a variety of adult and child-size configurations. Disposable mouth-to-mask resuscitation systems have the added advantage of reducing the risk of transmission of communicable diseases.

In 1988 the Company introduced the first domestic line of emergency transport ventilators, or autovents, which are small and compact in design. The Company's autovent can meet a variety of needs in different applications ranging from typical emergency medical situations to more sophisticated air and ground transport. Each autovent is accompanied by a patient valve which provides for effective ventilation during cardiopulmonary resuscitation or respiratory distress. When administration of oxygen is required at the scene of a disaster, in military field hospitals or in a multiple-victim incident, Allied's minilators and multilators are capable of providing oxygen to one or a large number of patients.

To complement the family of respiratory/resuscitation products, the Company offers a full line of oxygen products accessories. This line of accessory products includes reusable aspirators, tru-fit masks, disposable cuffed masks and related accessories.

TRAUMA AND PATIENT HANDLING PRODUCTS. The Company's trauma and patient handling products include spine immobilization products, pneumatic anti-shock garments and trauma burn kits. Spine immobilization products include a back board which is designed for safe immobilization of injury victims and provides a durable and cost effective means of emergency patient transportation and extrication. The infant/pediatric immobilization board is durable and scaled for children. The half back extractor/rescue vest is useful for both suspected cervical/spinal injuries and for mountain and air rescues. The Company's pneumatic anti-shock garments are used to treat victims experiencing hypovolemic shock. Allied's trauma burn kits contain a comprehensive line of products for the treatment of trauma and burns.

SALES AND MARKETING

Allied sells its products primarily to respiratory care/anesthesia product distributors, hospital construction contractors, emergency medical equipment dealers and directly to hospitals. The Company maintains a domestic direct sales force of 57 sales professionals, all of whom are full-time employees of the Company. The sales force includes 34 respiratory products specialists, 18 hospital construction specialists, one home health care specialist, five emergency medical specialists and two national account representatives. The Company also utilizes 10 telemarketers to generate sales in the home health care market.

Respiratory products specialists are responsible for sales of medical gas system regulation devices, portable suction equipment and respiratory care/anesthesia products. These products are principally sold to the approximately 5,700 hospitals in the United States through specialized respiratory care/anesthesia product distributors. Many of these suppliers have had experience with the Company's products as hospital respiratory therapists. The Company hopes to capitalize on its brand name recognition and the familiarity of its products and

their reputations among these former hospital therapists as a means of increasing its share of the home respiratory care products market.

Respiratory products specialists are also responsible for sales of the full line of infant and adult critical care ventilators and humidifiers, as well as related monitoring equipment. These products are principally sold to hospitals, sub-acute care facilities and to durable medical equipment suppliers. Recently, Allied completed a consolidation of its patient care and ventilator specialists sales forces. The Company believes this consolidation will yield several benefits, which include optimization of selling expenses through increased sales coverage, broadening product offerings for each sales call, significantly reducing the geographic territory for each sales specialist and combining the strength of complementary product lines.

Construction specialists are responsible for sales of medical gas system construction products, including in-wall components, central station pumps and compressors and headwalls. Construction specialists work with hospitals, architects and project management firms, but most frequently sell to mechanical and electrical contractors for new construction or renovation projects.

Home health care specialists are responsible for sales of home respiratory care products. These products are sold through durable medical equipment suppliers, who then rent or sell the products directly to the patient for use in the home.

Emergency medical specialists are responsible for sales of respiratory/resuscitation products, trauma and patient handling products. These products are principally sold to ambulance companies, fire departments and emergency medical systems volunteer organizations through specialized emergency medical products distributors.

The Company employs national account representatives who are responsible for marketing Allied's products to national hospital groups, managed care organizations and other health care providers and to national chains of durable medical equipment suppliers through sales efforts at the executive level. Generally, the national account representatives secure a commitment from the purchaser to buy a specified quantity of Allied's products over a defined time period at a discounted price based on volume.

INTERNATIONAL. International sales represent a growth area which the Company has been emphasizing, as reflected by the 11.9% increase in international sales from \$30.8 million in fiscal 1996 to \$34.5 million in fiscal 1997. Allied's net sales to foreign markets totaled approximately 29% of the Company's total net sales in fiscal 1997. International sales are made through a network of dealers, agents and U.S. exporters who distribute the Company's products throughout the world. The Company currently maintains two international sales offices. Allied has market presence in Canada, Mexico, Central and South America, Europe, the Middle East and the Far East. Due to acquisitions and distribution-related improvements, the Company has increased its sales in the Far East, an area which is expected to show considerable market growth as a result of anticipated improvements in the health care infrastructure. For information regarding the Company's export sales by geographic area, see Note 10 of the Notes to Consolidated Financial Statements incorporated by reference herein.

MANUFACTURING

Allied's manufacturing processes include fabrication, electro-mechanical assembly operations and plastics manufacturing. A significant part of Allied's manufacturing operations involves electro-mechanical assembly of proprietary products and circuit boards and the Company is vertically integrated in most elements of metal machining and fabrication. Most of Allied's hourly employees are involved in machining, metal fabrication, plastics manufacturing and product assembly.

Allied manufactures small metal components from bar stock in a machine shop which includes automatic screw machines, horizontal lathes and drill presses. Additionally, five computer controlled machining centers were purchased and installed during fiscal 1997 in the Company's St. Louis, Missouri facility. This \$1.5 million investment has substantially modernized the Company's metal machining capabilities and will result in significant opportunities to reduce product costs from shorter set-up times, elimination of secondary operations in component

manufacturing, reduced inventory levels, reductions in scrap and improvements in quality. The Company makes larger metal components from sheet metal using computerized punch presses, brake presses and shears. The Company utilizes automated welding equipment and an automated paint line in the production of its disposable oxygen cylinders. In its plastics manufacturing processes, the Company utilizes both extrusion and injection molding. The Company believes that its production facilities and equipment are in good condition and sufficient to meet planned increases in volume over the next few years and that conditions in local labor markets should permit the implementation of additional shifts and days operated to meet any future increased production capacity requirements.

Allied's production of its disposable products has been constrained by outdated molds and injection molding machinery since the acquisition of B&F Medical Products, Inc. in 1994. During fiscal 1996 and 1997, manufacturing inefficiencies and capacity constraints prevented the Company from shipping to the level of demand for certain products. Accordingly, the Company invested \$1.1 million in molds and injection molding machinery to expand the production capacity and gain efficiencies at its Toledo, Ohio facility. This investment in enhanced injection molding capabilities is expected to increase production throughput, and to provide significant cost reduction opportunities, including reduced product material content, labor and utility costs, while improving overall quality and yields.

RESEARCH AND DEVELOPMENT

In order to keep pace with technological advancements, the Company has increased the level of its research and development activities and anticipates a continuing commitment to research and development in the future. Research and development expenditures in fiscal 1996 and 1997 were approximately \$3.3 million and \$3.7 million, respectively.

Expenditures for research and development activities primarily included updating current products and developing new respiratory therapy products. The Company has approximately 40 engineers and technicians working on research and development projects.

The Company has recently introduced several new products which resulted from its research and development efforts. These products include the Bear Cub 750R infant ventilator, the Connect II universal medical gas outlet, the Schuco 2000 nebulizer, Chemetron'sTM line of flowmeters, the BearTM 1000 ventilator with Smart Trigger^R and the GomcoTM Opti-Vac. The Bear Cub 750R infant ventilator utilizes a unique patented volume limit technology which establishes an upper boundary to minimize the potential risk of over inflation of an infant's lungs. The Connect II universal medical gas outlet allows the interfacing of Allied's gas regulation devices into gas systems installed by its competitors, thus opening new market potential for the Company. The Schuco 2000 home care nebulizer is designed for the treatment of asthmatics, primarily children, and has lower production costs, an extended warranty and greater ease of use. The ChemetronTM flowmeter has been redesigned to more effectively utilize space with the metering knob in front and offers an extended warranty. The BearTM 1000 adult and pediatric ICU ventilator with Smart-Trigger^R provides a unique mechanism for automatically adjusting pressure and flow thresholds. The GomcoTM Opti-Vac meets suctioning needs in all health care settings, including emergency, acute care, sub-acute care and the home.

GOVERNMENT REGULATION

The Company's products and its manufacturing activities are subject to extensive and rigorous government regulation by federal and state authorities in the United States and other countries. In the United States, medical devices for human use are subject to comprehensive review by the United States Food and Drug Administration (the "FDA"). The Federal Food, Drug, and Cosmetic Act ("FDC Act"), and other federal statutes and regulations, govern or influence the research, testing, manufacture, safety, labeling, storage, record keeping, approval, advertising, and promotion of such products. Noncompliance with applicable requirements can result in Warning Letters, fines, recall or seizure of products, injunction, refusal to permit products to be imported into or exported out of the United States, refusal of the government to clear or approve marketing applications or to allow the

Company to enter into government supply contracts, withdrawal of previously approved marketing applications and criminal prosecution.

The Company is required to file a premarket notification in the form of a premarket approval ("PMA") with the FDA before it begins marketing a new medical device that offers new technology that is currently not on the market. The Company also must file a premarket notification in the form of a 510(k) with the FDA before it begins marketing a new medical device that utilizes existing technology for devices that are currently on the market. The 510(k) submission process is also required when the Company makes a change or modifies an existing device in a manner that could significantly affect the device's safety or effectiveness.

Compliance with the regulatory approval process in order to market a new or modified medical device can be uncertain, lengthy and, in some cases, expensive. There can be no assurance that necessary regulatory approvals will be obtained on a timely basis, or at all. Delays in receipt or failure to receive such approvals, the loss of previously received approvals, or failure to comply with existing or future regulatory requirements could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company manufactures and distributes a broad spectrum of respiratory therapy equipment, emergency medical equipment and medical gas equipment. To date, all of the Company's FDA clearances have been obtained through the 510(k) clearance process. These determinations are very fact specific, and the FDA has stated that, initially, the manufacturer is best qualified to make these determinations, which should be based on adequate supporting data and documentation. The FDA, however, may disagree with a manufacturer's determination not to file a 510(k) and require the submission of a new 510(k) notification for the changed or modified device. Where the FDA believes that the change or modification raises significant new questions of safety or effectiveness, the agency may require a manufacturer to cease distribution of the device pending clearance of a new 510(k) notification. Certain of the Company's medical devices have been changed or modified subsequent to 510(k) marketing clearance of the original device by the FDA. Certain of the Company's medical devices, which were first marketed prior to May 28, 1976 and, therefore, grandfathered and exempt from the 510(k) notification process, also have been subsequently changed or modified. The Company believes that these changes or modifications do not significantly affect the device's safety or effectiveness or make a major change or modification in the device's intended uses and, accordingly, that submission of new 510(k) notification to FDA is not required. There can be no assurance, however, that FDA would agree with the Company's determinations.

In addition, commercial distribution in certain foreign countries is subject to additional regulatory requirements and receipt of approvals that vary widely from country to country. The Company believes it is in compliance with regulatory requirements of the countries in which it sells its products.

The Company's medical device manufacturing facilities are registered with FDA. As such, the Company will be inspected by FDA for compliance with the GMP regulations for medical devices. This regulation requires that the Company manufacture its products and maintain documents in a prescribed manner with respect to manufacturing, testing and control activities. The GMP regulation has been revised by FDA to include design controls as well. The Company also is subject to the registration and inspection requirements of state regulatory agencies.

In July 1997 FDA conducted an inspection at the Riverside, California facility and issued a Form FDA 483. The Company has taken what it believes to be the necessary corrective action and has verbally been notified that such actions are appropriate and satisfactory. The Company does not anticipate any regulatory imposed delays in manufacturing or shipping as a result of this FDA inspection and Form FDA 483.

The Medical Device Reporting regulation requires that the Company provide information to FDA on deaths or serious injuries alleged to have been associated with the use of its devices, as well as product malfunctions that would likely cause or contribute to death or serious injury if the malfunction were to recur. The Medical Device Tracking regulation requires the Company to adopt a method of device tracking of certain devices, such as ventilators, which are life-supporting or life-sustaining devices used outside of a device user facility or which are permanently implantable devices. The regulation requires that the method adopted by the Company

ensures that the tracked device can be traced from the device manufacturer to the person for whom the device is indicated (i.e., the patient). In addition, FDA prohibits a company from promoting an approved device for unapproved applications and reviews a company's labeling for accuracy. Labeling and promotional activities also are, in certain instances, subject to scrutiny by the Federal Trade Commission.

There can be no assurance that any required FDA or other governmental approval will be granted, or, if granted, will not be withdrawn. Governmental regulation may prevent or substantially delay the marketing of the Company's proposed products and cause the Company to undertake costly procedures. In addition, the extent of potentially adverse government regulation that might arise from future administrative action or legislation cannot be predicted. Any failure to obtain, or delay in obtaining, such approvals could adversely affect the Company's ability to market its proposed products.

Sales of medical devices outside the United States are subject to foreign regulatory requirements that vary widely from country to country. Whether or not FDA approval has been obtained, approval of a device by a comparable regulatory authority of a foreign country generally must be obtained prior to the commencement of marketing in those countries. The time required to obtain such approvals may be longer or shorter than that required for FDA approval. In addition, FDA approval may be required under certain circumstances to export certain medical devices.

The Company also is subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protections, fire hazard control and disposal of hazardous or potentially hazardous substances. There can be no assurance that it will not be required to incur significant cost to comply with such laws and regulations in the future or that such laws or regulations will not have a materially adverse effect upon the Company's ability to do business.

THIRD PARTY REIMBURSEMENT

The cost of a majority of medical care in the United States is funded by the U.S. Government through the Medicare and Medicaid programs and by private insurance programs, such as corporate health insurance plans. Although the Company does not receive payments for its products directly from these programs, home respiratory care providers and durable medical equipment suppliers, who are the primary customers for several of the Company's products, depend heavily on payments from Medicare, Medicaid and private insurers as a major source of revenues. In addition, sales of certain of the Company's products are affected by the extent of hospital and health care facility construction and renovation at any given time. The federal government indirectly funds a significant percentage of such construction and renovation costs through Medicare and Medicaid reimbursements. In recent years, governmentally imposed limits on reimbursement of hospitals and other health care providers have impacted spending for services, consumables and capital goods. In addition, Congress has deferred resolution of health care policy issues, including the Medicare and Medicaid programs and whether there should be changes in the eligibility requirements for participation in such programs or whether they should be restructured. A material decrease from current reimbursement levels or a material change in the method or basis of reimbursing health care providers, especially with respect to capital spending, as well as uncertainty with respect to the possibility of such changes, are likely to adversely affect future sales of the Company's products.

PATENTS, TRADEMARKS AND PROPRIETARY TECHNOLOGY

The Company owns and maintains patents on several products which it believes are useful to the business and provide the Company with an advantage over its competitors.

The Company owns and maintains U.S. trademark registrations for Chemetron, Gomco, Oxequip, Lif-O-Gen, Life Support Products, Timeter, Vacutron, Schuco, Bear, BiCore, Omnitech and Design Principles, its principal trademarks. Registrations for these trademarks are also owned and maintained in all countries where such products are sold and such registrations are considered necessary to preserve the Company's proprietary rights therein.

COMPETITION

The Company has different competitors within each of its product lines. Many of the Company's principal competitors are larger than Allied and the Company believes that most of these competitors have greater financial and other resources than the Company. The Company competes primarily on the basis of price, quality and service. The Company believes that it is well positioned with respect to product cost, brand recognition, product reliability and customer service to compete effectively in each of its markets.

EMPLOYEES

At June 30, 1997, the Company had 854 full-time employees and 30 part-time employees. Approximately 266 employees in the Company's principal manufacturing facility located in St. Louis, Missouri, are covered by a collective bargaining agreement. The Company and the union have an agreement in principle as to the terms and conditions of the collective bargaining agreement and the Company has prepared a draft of the agreement and submitted it to the union for ratification. Such agreement will expire in May 2000. An aggregate of approximately 115 employees at the Company's facilities in Oakland, California, Toledo, Ohio and Stuyvesant Falls, New York are also covered by collective bargaining agreements which expire in 1998 for the Oakland and Stuyvesant Falls facilities and in 2000 for the Toledo Facility.

In June 1997, the Company experienced a 19-day strike at its principal facility in St. Louis following the expiration of a collective bargaining agreement. The work stoppage had a material adverse effect on the Company's business and results of operations for fiscal 1997. The Company believes that its labor relations are satisfactory.

ENVIRONMENTAL AND SAFETY REGULATION

The Company is subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the environment and establish standards for the treatment, storage and disposal of toxic and hazardous wastes. The Company is also subject to the federal Occupational Safety and Health Act and similar state statutes. From time to time the Company has been involved in environmental proceedings involving clean-up of hazardous waste. There are no such material proceedings currently pending. Costs of compliance with environmental, health and safety requirements have not been material to the Company. The Company believes it is in material compliance with all applicable environmental laws and regulations.

ITEM 2. PROPERTIES

The Company's headquarters are located in St. Louis, Missouri and the Company maintains manufacturing facilities in Missouri, California, Ohio and New York. Set forth below is certain information with respect to the Company's manufacturing facilities.

LOCATION	SQUARE FOOTAGE (APPROXIMATE)	OWNED/ LEASED	ACTIVITIES/PRODUCTS
St. Louis, Missouri	270,000	Owned	Headquarters; medical gas equipment; respiratory therapy equipment; emergency medical products
Riverside, California	164,000	Leased	Respiratory therapy equipment
Toledo, Ohio	56,700	Owned	Home health care products
Stuyvesant Falls, New York	30,000	Owned	CO2 absorbent
Oakland, California	12,500	Leased	Headwalls

In the event of the expiration, cancellation or termination of a lease relating to any of the Company's leased properties, the Company anticipates no significant difficulty in connection with leasing alternate space at reasonable rates. The Company leases a facility in Mt. Vernon, Ohio, which is currently unused as its operations were consolidated into the Toledo facility as a second stage of its plant consolidation strategy for its disposable products operations. In addition, the Company also owns an additional 16.8 acre parcel of undeveloped land in Stuyvesant Falls, New York.

ITEM 3. LEGAL PROCEEDINGS

Product liability lawsuits are filed against the Company from time to time for various injuries alleged to have resulted from defects in the manufacture and/or design of the Company's products. Several such proceedings are currently pending, which are not expected to have a material adverse effect on the Company. The Company maintains comprehensive general liability insurance coverage which it believes to be adequate for the continued operation of its business, including coverage of product liability claims.

In addition, from time to time the Company's products may be subject to product recalls in order to correct design or manufacturing flaws in such products. To date, no such recalls have been material to the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Allied Healthcare Products, Inc. began trading on the NASDAQ National market under the symbol AHPI on January 14, 1992, following its initial public offering. As of September 23, 1997, there were 261 record owners of the Company's Common Stock. The following tables summarize information with respect to the high and low closing prices for the Company's Common Stock as listed on the NASDAQ National market for each quarter of fiscal 1997 and 1996, respectively, and dividends declared per share for each quarter of fiscal 1997 and 1996, respectively.

Common Stock Information			Dividends Declared Per Share	
	High	Low	1997	1996
1997				
-----	-----	-----	-----	-----
September quarter	\$10 1/4	\$6 1/4	September quarter	-- \$0.07
December quarter	7 3/4	6 3/8	December quarter	-- 0.07
March quarter	9 1/4	7	March quarter	-- 0.07
June quarter	7 1/8	5 3/8	June quarter	-- 0.07
				-- \$0.28
			-----	-----

1996	High	Low
September quarter	\$18 3/4	\$15 1/4
December quarter	19 1/2	15 1/2
March quarter	16 3/4	10 1/2
June quarter	13 1/4	8 7/16

Item 6. Selected Financial Data

In thousands, except per share data)
Year ended June 30,

	1997	1996	1995	1994	1993
Statement of Operations Data					
Net sales	\$118,118	\$120,123	\$111,639	\$74,129	\$61,230
Cost of sales	82,365	80,550	68,430	44,172	36,213
Gross profit	35,753	39,573	43,209	29,957	25,017
Selling, general and administrative expenses	33,910	31,449	24,849	16,824	13,879
Income from operations	1,843	8,124	18,360	13,133	11,138
Interest expense	7,606	4,474	3,704	1,338	210
Other, net	186	350	(21)	1	276
Income before provision for income taxes	(5,949)	3,300	14,677	11,794	10,652
Provision for income taxes	(1,428)	1,473	5,854	4,539	3,967
Net income	\$(4,521)	\$1,827	\$8,823	\$7,255	\$6,685
Earnings per share	\$(0.58)	0.25	1.45	1.31	0.93
Weighted average common shares outstanding	7,797	7,378	6,067	5,522	7,207

In thousands)

June 30,	1997	1996	1995	1994	1993
Balance Sheet Data					
Working capital	\$18,743	\$38,030	\$2,810	\$5,018	\$10,527
Total assets	126,343	136,760	126,192	64,593	36,926
Short-term debt	12,891	3,849	34,420	13,108	4,110
Long-term debt (net of current portion)	34,041	49,033	34,602	16,513	10,511
Shareholders' equity	59,365	63,886	38,374	20,034	13,498

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following discussion summarizes the significant factors affecting the consolidated operating results and financial condition of the Company for the three fiscal years ended June 30, 1997. This discussion should be read in conjunction with the consolidated financial statements, notes to the consolidated financial statements and selected consolidated financial data included elsewhere herein.

Certain statements contained herein are forward-looking statements. Actual results could differ materially from those anticipated as a result of various factors, including cyclical and other industry downturns, the effects of federal and state legislation on health care reform, including Medicare and Medicaid financing, the inability to realize the full benefit of recent capital expenditures or consolidation and rationalization activities, difficulties or delays in the introduction of new products or disruptions in selling, manufacturing and/or shipping efforts.

From December 1993 through November 1995 the Company completed seven acquisitions which significantly expanded its product lines. These acquisitions were each accounted for under the purchase method of accounting and were financed primarily through bank borrowings, resulting in a large increase in the Company's debt and interest expense. One acquisition was partially financed through the issuance of common stock. Results of operations of each acquired company have been included in Allied's consolidated statement of operations from the date of acquisition. The purchase price of each acquisition was allocated to the assets acquired and liabilities assumed, based on their estimated fair value at the date of acquisition. The excess of purchase price over the estimated fair value of net assets acquired was, in each instance, recorded as goodwill and is amortized over 20- or 40-year periods from the date of acquisition. Primarily as a result of these acquisitions, the Company incurred a total of approximately \$1.5 million in goodwill amortization expense in the fiscal year ended June 30, 1997.

The following table summarizes the seven acquisitions:

			(Dollars in millions)
DATE	BUSINESS	PRODUCTS	PURCHASE PRICE
December 1993	Life Support Products, Inc. ("LSP")	Emergency medical equipment	\$15.7
March 1994	Hospital Systems, Inc. ("HSI")	Headwall products	2.2
September 1994	B&F Medical Products, Inc. ("B&F")	Home health care & respiratory therapy products	21.5
February 1995	Bear Medical Systems, Inc. ("Bear")	Critical care ventilators	15.4
May 1995	BiCore Monitoring Systems, Inc. ("BiCore")	Monitoring systems & equipment for ventilators	4.7
June 1995	Design Principles, Inc. ("DPI")	Emergency medical equipment	0.6
November 1995	Omni-Tech Medical, Inc. ("Omni-Tech")	Transport ventilators	1.6

These acquisitions expanded the breadth of products the Company offers and has strategically placed the Company in the potential high growth markets of home health care and extended care. The Company believes that the expansion of product line offerings is particularly important in international markets as the Company continues to increase its worldwide presence. While the Company continues to believe that these acquisitions will provide a source of future growth in sales and earnings, the integration and rationalization of the acquired businesses are still in progress. The softness experienced in core domestic markets during fiscal 1996 and in the early part of fiscal 1997 combined with internal disruptions caused by a work stoppage in June 1997 and a computer conversion in October 1996, both in the St. Louis facility, as well as ongoing negotiations with the Company's commercial bank syndicate, put pressures on margins and adversely affected the Company's results of operations in fiscal 1997. In addition, higher interest expense incurred under restructured credit facilities also adversely affected the Company's results of operations. Progress made by the Company on its consolidation activities and capital projects during fiscal 1997 is as follows:

RESPIRATORY PRODUCTS SALESFORCE CONSOLIDATION AND TRAINING

During fiscal 1997, the Company consolidated its 21 patient care specialists with its 21 ventilator specialists to create a 34 person respiratory products specialists field sales force. The training required for this consolidation was completed in November 1996. Benefits expected from this consolidation include optimization of selling expenses through increased sales coverage, broadening product offerings for each sales call, significantly reducing the geographic territory for each sales specialist and leveraging the strengths of these complementary product lines while enabling the sales specialists to enhance their relationships with customers.

HOME HEALTH CARE SALES

During the third quarter of fiscal 1997, the Company completed the refocus of its sales efforts for the home health care product line to Durable Medical Equipment Dealers ("DME's"). Allied increased its inside telemarketing sales group by six and reduced the field sales force by ten. Expanding the inside telemarketing sales efforts increases the penetration to the DME's and provides greater coverage and improved customer response time. Allied invested in updated catalogues, literature, and other mailings during the third quarter of fiscal 1997 to augment its increased telemarketing focus. Contracts with, and sales to, national home health care chains of these products continue to be made by the Company's national account sales force.

INFORMATION SYSTEMS ENHANCEMENTS

The Company made advances in upgrading its information technology capabilities during fiscal 1997. In October 1996, the Company converted its corporate offices and its St. Louis manufacturing operations to a new fully-integrated software system. This computer conversion, which should provide strategic long-term benefits to the Company, caused short-term disruptions in manufacturing scheduling and shipping of products which, management believes, resulted in some permanently lost sales. The tools and capabilities of the new system have enabled the Company to improve manufacturing planning and scheduling, enhance forecasting and inventory control, and enhance customer service by improving the quantity and quality of customer and product information. The Company also plans to convert its Toledo, Ohio operations to the new system, and preliminary implementation activities have begun. When fully implemented, the information technology system enhancements should enable the Company to realize potential synergies of acquisitions through an efficient integrated data base, enhanced management reporting systems and consolidation of certain operational functions.

CAPITAL EXPENDITURE PROJECTS

The Company made significant progress in modernizing two of its primary manufacturing facilities during fiscal 1997. Through a capital lease, the Company acquired five computer controlled machining centers for its St. Louis, Missouri facility and completed the programming and installation process in the third quarter of fiscal 1997. This \$1.5 million investment modernized the Company's metal machining capabilities and provides significant opportunities to reduce product costs (from shorter set-up times and elimination of secondary operations in component manufacturing), inventory levels, and scrap and to improve quality.

In addition, the Company invested \$1.1 million in molds and injection molding machinery to expand the production capacity and gain efficiencies at its Toledo, Ohio facility. Manufacturing inefficiencies and capacity constraints caused by outdated injection molding machinery has prevented the Company from shipping to the level of demand for certain products. This investment in enhanced injection molding capabilities is expected to increase annual production, improve overall quality and provide significant cost reduction opportunities, arising from reduced product material content and lower labor and utility costs. Under this investment program, six injection molding machines and eleven molds have been installed as of June 30, 1997. While the Company has expended both monetary and human resources on these projects in fiscal 1997 and intends to continue emphasizing these and other internally-controlled projects, there can be no assurance that the Company will be successful in implementing these projects and realizing the anticipated synergies.

FISCAL 1997 FOURTH QUARTER RESULTS OF OPERATIONS

The fiscal 1997 fourth quarter represented a difficult period for the Company. Results of operations in the fourth quarter of fiscal 1997 were adversely impacted by a variety of factors. The nineteen day work stoppage at the Company's St. Louis, Missouri facility in June 1997 resulted in a permanent loss in sales, margin declines, and plant inefficiencies. Interest expense increased to \$3.4 million in the fourth quarter of fiscal 1997 primarily due to fees paid to the Company's commercial bank group to obtain waivers for technical covenant violations and for other matters related to its borrowing agreement. Finally, based on management's assessment of facts related to or

culminating in the fourth quarter of fiscal 1997, the Company increased certain reserves and recorded other charges to operations during the fourth quarter which totaled approximately \$2.0 million. Included in these charges were certain adjustments to the carrying value of certain of the Company's inventories of \$1.0 million, an increase to the allowance for doubtful accounts of \$0.6 million, \$0.3 million for the settlement of a lawsuit related to a pre-acquisition matter at one of the Company's acquired subsidiaries, and \$0.1 million for a new product licensing agreement. As a result of these and various other factors described below, fourth quarter fiscal 1997 net sales were \$30.1 million while the net loss was \$3.5 million compared to fourth quarter net sales of \$30.2 million and a net loss of \$2.2 million in the prior year.

Sales of respiratory therapy equipment for the fourth quarter were \$16.3 million, an increase of \$0.7 million, or 4.6%, compared to sales of \$15.6 million in the prior year. Sales to the hospital market were up 27.5% in the fourth quarter of fiscal 1997 compared to the fourth quarter of fiscal 1996. This increase was primarily due to the strong worldwide market acceptance of recent technology improvements in both the adult critical care ventilator and Allied's new infant ventilator. Sales to the home health care market, however, were down by 19.9% in the fourth quarter of fiscal 1997 compared to the fourth quarter of fiscal 1996. This decrease in sales was attributable to pricing pressures in the home health care market, capacity problems in the Toledo facility and, to a lesser extent, the impact of the St. Louis work stoppage. Sales of medical gas equipment for the fourth quarter were \$10.9 million, a decline of \$0.4 million, or 3.4%, compared to sales of \$11.3 million in the prior year. The work stoppage in St. Louis adversely impacted sales of medical gas regulation devices and medical gas inwall construction products.

Emergency medical products sales in the fourth quarter of fiscal 1997 of \$2.9 million were \$0.3 million, or 11.0%, under sales of \$3.2 million in the comparable prior period. This sales trend is a continuation of the first nine months of fiscal 1997 as a decline in new orders and production constraints described in the following section have impacted sales of emergency medical products.

Gross profit for the fourth quarter of fiscal 1997 was \$8.1 million, or 26.8% of net sales, compared to \$7.6 million, or 25.1% of net sales in the fourth quarter of fiscal 1996. Gross profit and gross margin in the fourth quarter of fiscal 1997 were adversely impacted by the effects of the June 1997 work stoppage at the St. Louis, Missouri facility and the adjustments to the carrying value of the Company's inventories described above. Gross profit and gross margin for the fourth quarter of fiscal 1996 were adversely impacted by a decline in manufacturing volumes in certain product lines, which resulted in the expensing of a portion of fixed plant overhead costs as period costs.

Selling, general and administrative ("SG&A") expenses were \$9.2 million in the fourth quarter of fiscal 1997, a decrease of \$0.1 million compared to SG&A expenses of \$9.3 million in the comparable prior year period. The fiscal 1997 fourth quarter included the previously noted increase to the allowance for doubtful accounts, lawsuit settlement charge and new product license fee which aggregated approximately \$1.0 million. In addition, the Company completed severance payments related to the field salesforce consolidation and made investments in promotional material for the home health care market during the fourth quarter of fiscal 1997.

The loss from operations for the fourth quarter of fiscal 1997 was \$1.1 million compared to a loss of \$1.7 million in the prior year reflecting the factors described above.

Interest expense for the fourth quarter of fiscal 1997 was \$3.4 million, an increase of \$2.3 million over interest expense of \$1.1 million in the fourth quarter of fiscal 1996. Sequentially, interest expense increased in the fourth quarter of fiscal 1997 to \$3.4 million compared to fiscal 1997 third quarter interest expense of \$1.7 million. This increase was directly attributable to the fees paid to the commercial bank group to obtain waivers for technical covenant violations at March 31, 1997, fees paid for not obtaining a commitment to reduce the bank group's indebtedness by \$20.0 million by May 15, 1997, fees paid for professional services related to credit negotiations and related audits, and the amortization of prepaid loan costs. On August 8, 1997 the Company refinanced its existing bank debt through a new \$46.0 million credit facility with Foothill Capital Corporation, a division of Norwest Bank, and also obtained \$5.0 million of financing through a private placement debt arrangement. The new financing agreements are discussed further below.

The Company incurred a loss before income taxes of \$4.5 million in the fourth quarter of fiscal 1997 compared to a net loss of \$3.2 million in the same period for the prior year. The Company recorded a tax benefit of \$1.0 million in both the fourth quarter of fiscal 1997 and fiscal 1996 for an effective tax rate of 22.6% and 31.6% in fiscal 1997 and fiscal 1996 respectively. The fiscal 1997 fourth quarter tax rate was impacted by the continued loss from operations, the non-deductibility of certain goodwill amortization, and the expected lack of availability of the Company's foreign sales tax credit. Results of operations in the fourth quarter of fiscal 1997 were a net loss of \$3.5 million, or \$0.45 per share, compared to a net loss of \$2.2 million, or \$0.30 per share, in the fourth quarter of fiscal 1996.

RESULTS OF OPERATIONS

Allied manufactures and markets respiratory products, including respiratory therapy equipment, medical gas equipment and emergency medical products. Set forth below is certain information with respect to amounts and percentages of net sales attributable to respiratory therapy equipment, medical gas equipment and emergency medical products for the fiscal years ended June 30, 1997, 1996 and 1995.

(DOLLARS IN THOUSANDS) YEAR ENDED JUNE 30,	1997	
	NET SALES	% OF TOTAL NET SALES
Respiratory therapy equipment.....	\$ 63,935	54.1%
Medical gas equipment.....	42,566	36.1%
Emergency medical products.....	11,617	9.8%
Total.....	\$118,118	100.0%

(DOLLARS IN THOUSANDS) YEAR ENDED JUNE 30,	1996	
	NET SALES	% OF TOTAL NET SALES
Respiratory therapy equipment.....	\$ 63,889	53.2%
Medical gas equipment.....	43,084	35.9%
Emergency medical products.....	13,150	10.9%
Total.....	\$120,123	100.0%

(DOLLARS IN THOUSANDS) YEAR ENDED JUNE 30,	1995	
	NET SALES	% OF TOTAL NET SALES
Respiratory therapy equipment.....	\$ 48,421	43.4%
Medical gas equipment.....	50,397	45.1%
Emergency medical products.....	12,821	11.5%
Total.....	\$111,639	100.0%

The following table sets forth, for the fiscal periods indicated, the percentage of net sales represented by certain items reflected in the Company's consolidated statement of operations.

YEAR ENDED JUNE 30,	1997	1996	1995
Net sales.....	100.0%	100.0%	100.0%
Cost of sales.....	69.7	67.1	61.3
Gross profit.....	30.3	32.9	38.7
Total selling, general and administrative expenses.....	28.7	26.2	22.3
Income from operations.....	1.6	6.7	16.4
Interest expense.....	6.4	3.7	3.3

Other expense.....	0.2	0.3	--
	---	---	----
Income (loss) before provision for income taxes..	(5.0)	2.7	13.1
Provision (benefit) for income taxes.....	(1.2)	1.2	5.2
Net Income (loss).....	(3.8%)	1.5%	7.9%
	-----	-----	-----

FISCAL 1997 COMPARED TO FISCAL 1996

Net sales for fiscal 1997 of \$118.1 million were \$2.0 million, or 1.7%, less than net sales of \$120.1 million in fiscal 1996. Certain internal and external factors impacted the Company's sales during fiscal 1997. Included in the internal operating issues which impacted the Company were the nineteen day work stoppage in the St. Louis, Missouri facility in June 1997, disruptions to manufacturing, scheduling and shipping created by the computer conversion in October 1996, also in the St. Louis facility, capacity constraints at the Toledo, Ohio facility and changes in the field salesforce. The work stoppage resulted in permanently lost sales, margin declines, and manufacturing disruptions during the work stoppage as well as during the pre- and post-work stoppage periods. In October 1996, the Company converted its St. Louis manufacturing and corporate office operations to a new, fully-integrated software system. The computer conversion, which should provide a strategic long-term benefit to the Company, caused short-term disruptions in manufacturing and shipping, resulting in lost sales. Management believes that any remaining issues regarding the computer conversion were substantially resolved by the end of the third quarter of fiscal 1997 through additional training and program enhancements. The Toledo facility has been capacity constrained by outdated injection molding machinery and molds. During fiscal 1997 the Company installed six new injection mold machines and eleven molds, and the Company is now adding to its direct labor assembly force in Toledo. Finally, as previously described, the Company consolidated its respiratory field salesforce and refocused its sales effort for the home health care product line to inside telemarketing. Each of these initiatives created short term sales disruptions in addition to the Company's incurrence of recruiting, training and marketing costs in fiscal 1997.

Certain external issues first experienced in fiscal 1996 continued to impact the Company's fiscal 1997 operations. The emphasis of healthcare providers on cost containment has resulted in significant consolidation in the healthcare environment in recent years. Such consolidation impacted sales as customers appeared to defer capital purchases as they rationalized their operations and delayed non-capital purchases as they reduced their consolidated inventory levels. In addition, the consolidation of healthcare providers increased the buying power of these customers, which resulted in pricing pressures.

Finally, the uncertainty over the federal budget, particularly the possibility of changes in Medicaid and Medicare reimbursement rates, has impacted sales. Congress has deferred resolution on various health care policy issues, and the Company is unable to predict the ramifications of this deferral on future sales. While the Company is unable to predict when these macroeconomic issues will be resolved, management believes that, over a long-term horizon, Allied is well positioned to capitalize on the need for its respiratory products and meet the demands of these products caused by an aging population, an increase in the occurrence of lung disease, and advances in treatment of other respiratory illnesses in the home, hospital, and sub-acute care facilities.

New orders, or the pace of incoming business, was strong throughout fiscal 1997. Fiscal 1997 orders of \$122.2 million were \$5.0 million, or 4.3%, over orders of \$117.2 million in fiscal 1996. While fiscal 1997 orders were impacted by the work stoppage, computer conversion, and salesforce consolidation activities, as previously discussed, fiscal 1997 orders exceeded same period fiscal 1996 orders in all four quarters. The increase in orders appears to have been driven by an increase in market demand for the Company's core products in medical gas construction and medical gas equipment as well as the strong worldwide acceptance of the Company's new ventilation technologies in adult and infant ventilators.

Medical gas equipment sales of \$42.6 million in fiscal 1997 were \$0.5 million, or 1.2%, under prior year sales of \$43.1 million. Medical gas equipment sales in fiscal 1997 were adversely impacted by the previously noted June 1997 work stoppage and the effects of the computer conversion. However, market demand for medical gas equipment sales has been strong, as reflected in new orders for fiscal 1997 of \$45.8 million, which was \$4.4 million, or 10.6%, over new orders in the prior fiscal year. It appears that the consolidation of health care

providers may be slowing, and the related rationalization process for facility protocol and inventory consolidation may be nearing completion. However, management is unable to predict when the full ramifications of such consolidation will be felt.

Respiratory therapy equipment sales in fiscal 1997 of \$63.9 million were unchanged from the prior year. Sales to the hospital market increased 11.1% as sales of ventilation products increased due to the strong world-wide acceptance of the Smart Trigger technology for the Company's adult critical care ventilator and technology advances incorporated in the new infant ventilator, the Bear Cub 750(R). In addition, the Company expects to achieve further benefits in the future from the previously noted combination of its ventilation and patient care sales forces, which was substantially completed in November 1996. Offsetting the increase in ventilation product sales was an 11.8% decline in sales of home health care products. This decline primarily resulted from manufacturing constraints in the Company's Toledo, Ohio facility, combined with pricing pressures caused by the ongoing consolidation of home health care dealers. Concerns over potential reductions in home oxygen therapy reimbursement rates also continued to impact sales of home health care products in fiscal 1997. While the Company is unable to predict when these latter two macroeconomic factors will be resolved, it believes that until there is a resolution of reimbursement policy issues, current customer purchase patterns are likely to continue. The previously described installation of new equipment and molds at the Toledo, Ohio facility have been in accordance with management's expectations; however, the Company's capacity issues have not fully been resolved due to direct labor constraints. Management is currently addressing this constraint through the addition of a third shift. To enhance home health care product sales, the Company has shifted its sales emphasis to inside telemarketing sales to increase sales coverage and penetration to DME's, as previously discussed.

Emergency medical products sales in fiscal 1997 of \$11.6 million were \$1.5 million, or 11.7%, under sales of \$13.1 million in the prior year. This sales decline was attributable to difficulties the Company had in the relocation of production of emergency products to the St. Louis, Missouri facility, the impact of the June 1997 work stoppage and the absence of a large stocking order that occurred in the prior year. The emergency medical products business has two elements. One is steady replacement sales and the other element is driven by events, such as a natural disaster or change in emergency protocol in a particular country. Management expects sales for the near future to primarily reflect demand driven by the replacement segment of the business.

The Company continued to increase its presence in world wide markets during fiscal 1997. International sales, which are included in the product line sales discussed above, increased \$3.7 million, or 11.9%, to \$34.5 million in fiscal 1997 compared to sales of \$30.8 million in fiscal 1996. Advances in medical protocol in various countries throughout the world combined with the Company's strong international dealer network has enabled the Company to respond to the increased worldwide demand for respiratory products. In addition, the strong worldwide market acceptance of the Smart Trigger(R) technology for the Company's adult critical care ventilator combined with the recent introduction of the new Bear Cub 750(R) infant ventilator has fueled the growth of international sales.

Gross profit in fiscal 1997 was \$35.8 million, or 30.3% of net sales, compared to gross profit of \$39.6 million, or 32.9% of net sales in fiscal 1996. The impact of the nineteen day work stoppage and the computer conversion in the St. Louis, Missouri facility during fiscal 1997 reduced manufacturing output and margins. In addition, the increase in international sales, which have lower margins than domestic sales due to the large quantity, bid-based nature of these sales, combined with pricing pressures brought on by consolidations which occurred in the Company's customer base, particularly in the hospital and home health care markets, resulted in reduced margins. In fiscal 1997, as previously described, the Company recorded certain adjustments to the carrying value of its inventories in the fourth quarter of approximately \$1.0 million. In fiscal 1996, the Company charged a portion of fixed plant costs as period costs due to a decline in manufacturing throughput. This fiscal 1996 charge primarily related to the fourth quarter. The Company anticipates continued pressures on margins due to the mix of domestic vs. international sales and anticipates continued pricing pressures from its customer base. In response to margin pressures, the Company made significant investments in capital expenditures in its St. Louis, Missouri and Toledo, Ohio facilities which are designed to reduce manufacturing costs, improve manufacturing cycle times, improve quality and reduce inventory levels. The Company continues to evaluate its business with an intent to streamline operations, improve productivity and reduce costs. Accordingly, the

Company may implement additional sales force, manufacturing and other strategic rationalization programs in the future.

Selling, General and Administrative ("SG&A") expenses for fiscal 1997 were \$33.9 million, an increase of \$2.5 million over SG&A expenses of \$31.4 million in fiscal 1996. The Company made strategic investments in certain SG&A activities and recorded certain non-recurring SG&A expenses in fiscal 1997. SG&A spending included investments in advertising and marketing literature, investments in information technology, and continued investments in research and development, all expenditures that potentially could benefit future periods. In addition, as previously described, the Company completed the recruiting, training and consolidation of its respiratory products salesforce and incurred duplicate costs for sales efforts to the DME's in the home health care market during the transition period of shifting to telemarketing from field sales representatives. While recruiting and training efforts of the field salesforce will continue, these expenditures are expected to be less than the relatively high level of expenditures during fiscal 1997. Fiscal 1997 SG&A expenses also included the previously noted increase to the allowance for doubtful accounts, lawsuit settlement charge and new product license fee which aggregated approximately \$1.0 million. Finally, the fiscal 1996 SG&A expenses were affected by a research grant of \$0.3 million which did not repeat in fiscal 1997. As a percentage of net sales, fiscal 1997 SG&A expenses were 28.7% compared to 26.2% in fiscal 1996. This increase was attributable to higher SG&A expenses in fiscal 1997, as discussed above, combined with lower sales during the year.

Income from operations in fiscal 1997 of \$1.8 million was \$6.3 million, or 77.3%, below fiscal 1996 income from operations of \$8.1 million. As a percentage of net sales, income from operations decreased to 1.6% in fiscal 1997 from 6.7% in fiscal 1996. These decreases were attributable to the factors discussed above.

Interest expense increased \$3.1 million, or 70.0%, to \$7.6 million in fiscal 1997 from \$4.5 million in fiscal 1996. The increase in interest expense in fiscal 1997 consisted of approximately \$2.2 million of fees and other professional costs incurred in connection with the debt amendments, as previously described, \$0.5 million related to increased amortization of prepaid loan costs, \$0.3 million related to increased interest costs for the capital expenditure projects previously discussed, and \$0.1 million, reflecting increases in effective interest rates which were partially offset by lower average debt levels. During fiscal 1997 the Company spent significant time and resources on various matters relating to its debt agreement with a commercial bank group, including negotiating a debt amendment on September 20, 1996 and obtaining waivers for technical covenant violations as of December 31, 1996 and March 31, 1997. The Company was ultimately unable to negotiate a long term financing arrangement with its commercial bank syndicate. On August 8, 1997, subsequent to fiscal year end, the Company entered into a \$46.0 million credit facility with Foothill Capital Corporation and obtained \$5.0 million in subordinated debt in a private placement arrangement. The new financing arrangement, which is expected to lower the Company's interest expense and provide additional liquidity, is discussed further below.

The Company had a loss before income taxes of \$5.9 million, a decrease of \$9.2 million from the income before provision for taxes of \$3.3 million in fiscal 1996. The Company recorded a tax benefit of \$1.4 million in fiscal 1997 for an effective tax rate of 24.0%, compared to a provision for income taxes of \$1.4 million in fiscal 1996 and an effective tax rate of 44.6%. The fiscal 1997 effective tax rate was impacted by the loss from operations, the non-deductibility of certain goodwill amortization, and the expected lack of availability of the Company's foreign sales tax credit in fiscal 1997.

Net loss in fiscal 1997 was \$4.5 million, or \$0.58 per share, a decrease of \$6.3 million from net income of \$1.8 million or earnings per share of \$0.25 in fiscal 1996. The weighted average number of common shares outstanding used in calculation of per share loss or earnings was 7,796,682 in fiscal 1997 compared to 7,378,478 in fiscal 1996. The increase in the weighted average number of common shares reflected the effects of the October 1995 sale of 1,610,000 shares of common stock in a public offering.

FISCAL 1996 COMPARED TO FISCAL 1995

Net sales increased by \$8.5 million, or 7.6%, to \$120.1 million in fiscal 1996 from \$111.6 million in fiscal 1995. The increase in net sales included \$19.9 million in sales as a result of acquisitions partially offset by a

decline of \$11.5 million in sales of existing products. Numerous external and internal factors adversely impacted the Company's sales during fiscal 1996. Certain macro-economic factors first experienced in the second quarter continued to impact sales throughout the remainder of fiscal 1996, most notably in the fourth quarter. Political uncertainty over the federal budget, particularly the possibility of changes in Medicare and Medicaid financing and health care provider reimbursement rates, adversely impacted customer purchasing decisions. In late April 1996, Congress resolved the federal fiscal 1996 budget issue, but deferred resolution of health care policy issues. The on-going consolidation of health care providers also impacted sales as this activity appears to have caused customers to delay capital purchases as they rationalized their operations, and to delay non-capital purchases as they reduced their consolidated inventory levels. The market softness experienced as a result of external factors heightened the impact of internal factors on fiscal 1996 sales, most notably in the fourth quarter.

Internally, the Company experienced disruption in its ventilation product line field sales force due to the effects of high turnover rates. Due to the technical nature of selling the ventilation product line, significant efforts and resources were expended to recruit and train the current field sales force. In addition, transitioning from distributor sales to a direct field sales force in certain other product lines, as well as manufacturing capacity issues, also adversely impacted fiscal 1996 sales. The Company experienced margin pressures in a number of its product lines due to several factors. These factors included the significant consolidation of home health care dealers and the resultant pricing pressures from these customers, the adverse impact of reduced volume on the cost of manufacturing due to the fixed nature of a significant portion of the Company's production costs, the impact of manufacturing inefficiencies experienced at one of the Company's plants, and the higher mix of lower margin international sales.

Respiratory therapy equipment sales increased \$15.5 million, or 31.9%, to \$63.9 million for fiscal 1996, compared to sales of \$48.4 million for fiscal 1995. The increase in sales of respiratory therapy products included \$19.2 million related to acquisitions, partially offset by a decline of \$3.7 million in sales of existing products. The impact of political uncertainty over the federal budget reconciliation legislation and a pledge by the Healthcare Financing Administration, the federal agency that administers Medicare, to significantly reduce the Medicare home oxygen rental fee rates contributed to the decline in sales of existing products. Market softness for capital expenditure products such as critical care ventilators, the consolidation of home health care dealers, and increased competitive pressure to obtain business from national accounts put pressure on pricing and margins throughout the last three quarters of 1996. In addition, manufacturing inefficiencies and capacity constraints experienced at one of the Company's facilities during fiscal 1996 prevented the Company from shipping to the level of demand for certain products.

Medical gas equipment sales of \$43.1 million for fiscal 1996 decreased \$7.3 million, or 14.5%, compared to sales of \$50.4 million during fiscal 1995. Consolidation of health care providers in the acute and post-acute care markets combined with customer concerns over the outcome of possible capital reimbursement policy changes adversely impacted fiscal 1996 sales. While the consolidation of health care providers appears to be slowing, management expects that sales of medical gas equipment should continue to be adversely impacted until capital reimbursement policy issues are resolved.

Emergency medical products sales of \$13.1 million for fiscal 1996 increased \$0.3 million, or 2.6%, compared to sales of \$12.8 million during fiscal 1995. The increase in sales included \$0.7 million related to acquisitions partially offset by a decline of \$0.4 million in existing products. The Company believes the decline in existing emergency medical products sales was attributable to the timing of orders and shipments. The acquisition of Omni-Tech in November 1995 had a favorable impact on sales to the U.S. Government, with \$0.4 million in incremental sales during fiscal 1996.

The Company continued to increase its presence in worldwide markets during fiscal 1996. International sales, which are included in the product line sales discussed above, increased \$6.6 million, or 27.3%, to \$30.8 million in fiscal 1996 compared to \$24.2 million in fiscal 1995. Acquisitions contributed \$8.4 million of the fiscal 1996 increase in international sales which was partially offset by a decline in sales by \$1.8 million of existing products. The decline in international sales of existing products primarily resulted from fewer new hospital construction projects in Mexico and other Latin American markets.

Gross profit of \$39.6 million in fiscal 1996 decreased \$3.6 million, or 8.4%, from \$43.2 million in fiscal 1995 as a result of sales mix, customer pricing pressures and manufacturing volume issues. The change in gross profit resulting from sales mix issues was due to the continued shift in sales to the home health care market which has lower margins than the construction product line, which had previously been the Company's primary product group; the continued increase in international sales, which have lower margins than domestic sales due to the large quantity, bid-based nature of these sales; and due to an increase in sales of distributed versus manufactured products during fiscal 1996. The consolidation of the Company's customer base, particularly in the hospital and home health care markets, resulted in larger buying groups and national accounts which increased customers' ability to negotiate prices.

Accordingly, these pricing pressures had an adverse impact on gross profit margins. In addition, the decline in existing product sales resulted in a decline in manufacturing volume in the Company's plants, particularly in the fourth quarter of fiscal 1996. As a result, a portion of fixed plant overhead costs was expensed as period costs, which adversely impacted margins. As a percentage of net sales, gross profit was 32.9% and 38.7% in fiscal 1996 and fiscal 1995, respectively.

SG&A expenses for fiscal 1996 increased \$6.6 million, or 26.6%, to \$31.4 million in fiscal 1996 from \$24.8 million in fiscal 1995. SG&A expenses increased \$6.4 million as a result of acquisitions, most notably increased selling expenses for the demonstration-based, direct sales-intensive critical care ventilation product line, increased research and development costs for the critical care ventilation products, which include development of the new Smart Trigger and Bear Cub 750 infant ventilator, and increased amortization expense attributable to the recent acquisitions. As described previously, base period SG&A expenses increased \$0.4 million as the Company invested in additional training activities for the field sales force, technology upgrades in its information systems, and other strategic research and development projects. As a percentage of net sales, SG&A expenses increased to 26.2% in fiscal 1996 compared to 22.3% in fiscal 1995. This increase was attributable to the combined factors of a decline in sales of existing products and the strategic investments in training, technology and new products.

Income from operations in fiscal 1996 of \$8.1 million was \$10.2 million, or 55.8%, below fiscal 1995 income from operations of \$18.4 million. As a percentage of net sales, income from operations decreased to 6.7% from 16.4% in fiscal 1996. This decrease was attributable to reduced sales of existing products, reduced gross margins, and the increase in SG&A expenses discussed above.

Other expenses increased \$1.1 million, or 31.0%, to \$4.8 million in fiscal 1996 from \$3.7 million in fiscal 1995. Interest expense increased \$0.8 million, or 20.7%, to \$4.5 million in fiscal 1996 from \$3.7 million in fiscal 1995. Interest expense increased \$1.4 million due to increased debt required to finance recent acquisitions, offset almost entirely by a reduction in interest charges resulting from the reduction of existing bank debt as a consequence of the equity offering completed in October 1995. The additional debt required to finance working capital, capital expenditures and other operations accounted for the \$0.8 million net increase in interest expense in fiscal 1996. The effective interest rate was 7.5% and 7.7% in fiscal 1996 and fiscal 1995, respectively.

Income before provision for income taxes decreased \$11.4 million, or 77.5%, to \$3.3 million in fiscal 1996 from \$14.7 million in the prior year. The Company's fiscal 1996 effective tax rate was 44.6% compared to 39.9% in fiscal 1995. This increase in the effective tax rate was primarily attributable to the amortization of non-tax deductible acquisition goodwill, which has an increasing impact on the effective tax rate as pre-tax income decreases.

Net income in fiscal 1996 was \$1.8 million, a decrease of \$7.0 million, or 79.3%, from \$8.8 million in fiscal 1995. Earnings per share decreased to \$0.25 in fiscal 1996 from \$1.45 in fiscal 1995, or 82.7%. The weighted average number of common shares outstanding used in the calculation of earnings per share was 7,378,478 in fiscal 1996 compared to 6,066,588 in fiscal 1995. The increase in the weighted average number of common shares was the result of the October 1995 sale of 1,610,000 shares of common stock and the September 1994 issuance of 640,000 shares of common stock in connection with the acquisition of B&F.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth selected information concerning Allied's financial condition:

(Dollars in thousands)	1997	1996	1995
June 30,			
Cash	\$ 988	\$ 1,489	\$ 175
Working capital	18,743	38,030	2,810
Total debt	46,932	52,882	69,022
Current ratio	1.57:1	2.69:1	1.05:1

The Company's working capital was \$18.7 million at June 30, 1997 compared to \$38.0 million at June 30, 1996, a decrease of \$19.3 million. Accounts receivables, inventories, and current assets all decreased during fiscal 1997, while accounts payable, other liabilities and the current portion of long-term debt all increased during fiscal 1997. Accounts receivable decreased to \$23.1 million at June 30, 1997 from \$26.0 million at June 30, 1996. The \$2.9 million decrease in accounts receivable was due to the decline in days sales outstanding ("DSO") by three days to 71 DSO at June 30, 1997, combined with the decline in sales late in the fourth quarter of fiscal 1997 resulting from the work stoppage in St. Louis. Inventories were \$26.1 million at June 30, 1997, a decrease of \$1.9 million from \$28.0 million at June 30, 1996. During fiscal 1997, the Company focused on reducing manufacturing cycle times through modernization of its plants and improvements in its manufacturing processes in order to better manage investments in inventories. Inventories, as measured in Days on Hand ("DOH"), declined by twelve days during fiscal 1997 to 128 DOH at June 30, 1997 compared to 140 DOH in the prior year. In addition, the Company made modest improvements in the mix of its inventories by increasing the safety stock levels of high volume products, for which customers require shortened delivery times, and reducing the stocking status of lower volume products. The Company plans to continue these inventory-related initiatives in fiscal 1998. Accounts payable of \$14.0 million and other accrued liabilities of \$6.0 million as of June 30, 1997 increased \$0.9 million and \$0.5 million, respectively, during fiscal 1997. The Company experienced limited liquidity during fiscal 1997 due to a reduction in borrowing availability related to the principal payments made on its term loans combined with the high level of fees paid to the Company's commercial bank group, as previously discussed. Consequently, payments to vendors and other obligations were extended, causing some disruption in deliveries and services. The Company's limited liquidity situation was alleviated with the completion of its new credit arrangement in August 1997 which is discussed further below. The current portion of long term debt was \$12.9 million at June 30, 1997 compared to \$3.8 million in the prior year. This increase reflects the terms of the new credit facility with Foothill Capital Corporation which includes a \$4.0 million term loan and the placement of \$5.0 million in subordinated debt, both of which mature in February 1998. The new financing arrangements are discussed further below.

Net cash increase/(decrease) was (\$0.5) million, \$1.3 million, and (\$1.2) million in fiscal 1997, 1996, and 1995 respectively. Net cash provided from (used by) operations was \$8.9 million, \$2.5 million, and (\$0.3) million for the same periods. Cash flow from operations in fiscal 1997 consisted of a net loss of \$4.5 million offset by the non-cash charges to operations of \$5.6 million for depreciation and amortization, as well as \$7.8 million in cash generated from changes in working capital accounts other than the current portion of long term debt. The cash provided by operations was offset by a net reduction in debt of \$8.1 million, debt issuance costs of \$0.7 million, and dividend payments of \$0.5 million, resulting in a net decrease in cash of \$0.5 million in fiscal 1997. The adverse effect on results of operations has impacted the Company's liquidity and the ability of the Company to continue historical levels of fixed payments. Accordingly, on August 21, 1996 the Company's Board of Directors voted to suspend quarterly dividends effective immediately subsequent to the payment of dividends for the fourth quarter of fiscal 1996. In addition, on August 8, 1997, subsequent to fiscal year end, the Company refinanced its existing credit facilities to reset its fixed debt payments and to provide the Company with additional liquidity. The refinancing is further discussed below. Besides cash flows from operations, the Company is considering various alternatives to meet its debt service requirements in fiscal 1998. Such debt service requirements include an aggregate of \$9.0 million in debt which matures in February, 1998, as described further below. These alternatives include replacement of such maturing debt with long-term financing, if available, and an asset sale.

At June 30, 1997, the Company had aggregate indebtedness of \$46.9 million, including \$12.9 million of short-term debt and \$34.0 million of long-term debt. Aggregate indebtedness at June 30, 1996 was \$52.9 million, including \$3.9 million of short-term debt and \$49.0 million of long-term debt. On October 13, 1995, the Company entered into credit facilities with a commercial bank syndicate with a final maturity in 2000. The secured credit facilities included a \$40.0 million revolving credit facility and term loans of \$15.0 million and \$70.0 million, or aggregate credit facilities of \$125.0 million. In September 1996, the Company's credit facilities were amended such that the \$68.4 million unused portion of the \$70.0 million acquisition term loan facility was no longer available. Additionally, amendments were made to the Company's credit facilities to reset certain covenants, to temporarily increase advance rates on the revolving credit facility borrowing base and to enter into an additional \$5.0 million term loan, leaving credit facilities totalling \$60.0 million. All credit facilities' maturity dates were reset to July 31, 1998. During fiscal 1997, the Company paid fees of approximately \$2.2 million for the September 1996 debt amendment, to obtain waivers for technical covenant violations at December 31, 1996 and March 31, 1997 and for related matters. The Company was ultimately unable to negotiate a long-term agreement with its commercial bank syndicate. Accordingly, on August 8, 1997, subsequent to fiscal year end, the Company refinanced its existing debt through a new \$46.0 million credit facility with Foothill Capital Corporation, a division of Norwest Bank. The new credit facility, with a blended average interest rate of 10.2%, is comprised of a \$25.0 million three-year revolving line of credit, three-year term loans of \$10.0 million and \$7.0 million, respectively, and a \$4.0 million loan maturing in February 1998. In conjunction with the new financing agreement, Allied placed an additional \$5.0 million in subordinated debt financing, which matures in February 1998, with several related parties to the Company. In addition, the Company issued 112,500 warrants at an exercise price of \$7.025 per share, 62,500 of which are being issued to the holders of the subordinated debt and the balance to Foothill Capital Corporation. The proceeds from the new financing were used to repay the Company's outstanding debt with the commercial bank syndicate, and to provide additional liquidity. At August 8, 1997, approximately \$4.1 million was available under the revolving line of credit for additional borrowings. The new credit facility is expected to reduce the Company's interest expense in future periods and provide additional liquidity, and reflects technical covenants which are consistent with the Company's current financial projections.

Capital expenditures, net of capital leases, were \$0.1 million, \$3.6 million, and \$6.3 million in fiscal 1997, 1996, and 1995, respectively. Assets acquired under capital leases in fiscal 1997 totaled \$1.6 million and will modernize the Company's St. Louis and Toledo operations, as previously discussed. Fiscal 1996 capital expenditures included strategic investments in a new machining center for the Company's St. Louis, Missouri facility, the purchase of machinery and molds to increase capacity at its Toledo, Ohio facility and other normal recurring replacements of machinery and equipment. Fiscal 1995 capital expenditures included an addition to the Company's manufacturing facility in St. Louis. The Company completed two separate plant consolidations in fiscal 1996. The Company's headwall construction manufacturing operation was consolidated into its HSI operations in Oakland, California, and its disposable medical products operation in Mt. Vernon, Ohio was closed and consolidated into its Toledo, Ohio facility operations. In addition, the Company acquired, \$2.6 million of computer equipment and software under capital leases to improve information technology systems. The Company anticipates the consolidations and investment in capital expenditures will reduce manufacturing costs, improve manufacturing cycle times and yields, and provide additional capacity.

The Company reduced its reserves which were recorded in connection with the previously discussed acquisitions by \$1.2 million in fiscal 1997 and \$2.0 million in fiscal 1996. These reductions are primarily related to cash payments for various costs directly attributable to these acquisitions, including severance, facility rationalization and related matters, and legal, accounting and consulting fees. The remaining acquisition reserves of approximately \$0.9 million at June 30, 1997 are expected to be liquidated primarily over the next year.

As of June 30, 1997, the Company had a backlog of \$23.9 million compared to a \$21.0 million backlog as of June 30, 1996. The Company's backlog, a significant portion of which is attributable to the Company's medical gas system construction products and its ventilation products, consists of firm customer purchase orders which are

subject to cancellation by the customer upon notification. Allied's policy is to recognize backlog orders only when they become shippable. The Company's backlog has increased in medical gas construction systems products, headwall construction products, emergency medical products and ventilation products from year to year.

Inflation has not had a material effect on the Company's business or results of operations.

SEASONALITY AND QUARTERLY RESULTS

In past fiscal years, the Company has experienced seasonal increases in net sales during its second and third fiscal quarters (October 1 through March 31) which, in turn, affected net income. Such seasonal variations were likely attributable to an increase in hospital equipment purchases at the beginning of each calendar year (which coincides with many hospitals' fiscal years) and an increase in the severity of influenza during winter months. As the Company has expanded its sales into the home health care, emergency medical and international markets, these seasonal variations have diminished, but have not disappeared.

The following table sets forth selected operating results for the eight quarters ended June 30, 1997. The information for each of these quarters is unaudited, but includes all normal recurring adjustments which the Company considers necessary for a fair presentation thereof. These operating results, however, are not necessarily indicative of results for any future period. Further, operating results may fluctuate as a result of the timing of orders, the Company's product and customer mix, the introduction of new products by the Company and its competitors, and overall trends in the health care industry and the economy. While these patterns have an impact on the Company's quarterly operations, the Company is unable to predict the extent of this impact in any particular period.

(Dollars in thousands, except per share data)
Three months ended

	June 30, 1997	March 31, 1997	Dec. 31, 1996	Sept. 30, 1996	June 30, 1996	March 31, 1995	Dec. 31, 1995	Sept. 30, 1995
Net sales	\$30,129	\$30,466	\$28,389	\$29,134	\$30,161	\$30,334	\$28,439	\$31,189
Gross profit	8,063	9,725	8,725	9,240	7,574	9,772	9,889	12,338
Income (loss) from operations	(1,091)	1,582	491	862	(1,765)	2,461	2,705	4,723
Net income (loss)	(3,485)	(302)	(556)	(177)	(2,159)	978	1,012	1,996
Earnings (loss) per share	(0.45)	(0.04)	(0.07)	(0.02)	(0.30)	0.12	0.11	0.32

NEW ACCOUNTING STANDARD

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS 128), which requires public entities to present both basic and diluted earnings per share amounts on the face of their financial statements, replacing the former calculations of primary and fully diluted earnings per share. The Company will adopt FAS 128 effective with its fiscal 1998 second quarter, and anticipates that, when adopted, FAS 128 will not have a material effect on its reported earnings per common share.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Allied Healthcare Products, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in stockholders' equity, and of cash flows present fairly, in all material respects, the

financial position of Allied Healthcare Products, Inc. and its subsidiaries at June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ Price Waterhouse LLP

St. Louis, Missouri
August 13, 1997

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended June 30,	1997	1996	1995
Net Sales	\$118,117,518	\$120,122,502	\$111,638,712
Cost of sales	82,364,405	80,549,685	68,430,068
Gross Profit	35,753,113	39,572,817	43,208,644
Selling, general and administrative expenses	33,909,510	31,449,306	24,848,486
Income from operations	1,843,603	8,123,511	18,360,158
Other expenses:			
Interest expense	7,606,129	4,474,316	3,703,954
Other, net	186,291	349,445	(20,595)
	7,792,420	4,823,761	3,683,359
Income (loss) before provision (benefit) for income taxes	(5,948,817)	3,299,750	14,676,799
Provisions (benefit) for income taxes	(1,427,716)	1,473,156	5,853,735
Net income (loss)	(\$4,521,101)	\$1,826,594	\$8,823,064
Earnings (loss) per share	(\$0.58)	\$0.25	\$1.45

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

June 30,	1997	1996

ASSETS		
Current assets:		
Cash	\$ 988,436	\$ 1,489,133
Accounts receivable, net of allowance for doubtful accounts of \$1,225,326 and \$422,517, respectively	23,093,037	25,964,658
Inventories	26,052,991	28,046,490
Income taxes receivable	--	2,285,224
Other current assets	1,544,811	2,713,497
	-----	-----
Total current assets	51,679,275	60,499,002
	-----	-----
Property, plant and equipment, net	20,848,870	21,968,504
Goodwill, net	50,763,511	52,821,411
Deferred tax asset-noncurrent	1,665,069	--
Other assets, net	1,386,291	1,471,541
	-----	-----
Total assets	\$126,343,016	\$136,760,458
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$14,048,235	\$13,104,299
Current portion of long-term debt	12,890,772	3,848,780
Other accrued liabilities	5,997,670	5,516,045
	-----	-----
Total current liabilities	32,936,677	22,469,124
	-----	-----
Long-term debt	34,041,300	49,033,545
Deferred tax liabilities-noncurrent	--	1,371,649
Commitments and contingencies (Notes 5 and 12)		
Stockholders' equity:		
Preferred stock; \$.01 par value; 1,500,000 shares authorized; no shares issued and outstanding		
Series A preferred stock; \$.01 par value; 200,000 shares authorized; no shares issued and outstanding		
Common stock; \$.01 par value; 30,000,000 shares authorized; 7,796,682 shares issued and outstanding at June 30, 1997 and 1996, respectively		
	101,002	101,002
Additional paid-in capital	46,945,971	46,945,971
Retained earnings	33,049,494	37,570,595
Common stock in treasury, at cost	(20,731,428)	(20,731,428)
	-----	-----
Total stockholders' equity	59,365,039	63,886,140
	-----	-----
Total liabilities and stockholders' equity	\$126,343,016	\$136,760,458
	=====	=====

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES
IN STOCKHOLDERS' EQUITY

	Preferred stock	Common stock	Additional paid-in capital	Stock subscriptions receivable	Retained earnings	Treasury stock
Balance, June 30, 1994	\$--	\$78,275	\$10,097,696	\$(70,627)	\$30,659,721	\$(20,731,428)
Issuance of common stock	--	6,615	10,168,570	--	--	--
Tax benefits relating to employee stock options	--	--	939,824	--	--	--
Payments on stock subscriptions receivable	--	--	--	70,627	--	--
Dividends declared (\$.28 per common share)	--	--	--	--	(1,668,425)	--
Net income for the year ended June 30, 1995	--	--	--	--	8,823,064	--
Balance, June 30, 1995	--	84,890	21,206,090	--	37,814,360	(20,731,428)
Issuance of common stock	--	16,112	25,739,881	--	--	--
Dividends declared (\$.28 per common share)	--	--	--	--	(2,070,359)	--
Net income for the year ended June 30, 1996	--	--	--	--	1,826,594	--
Balance, June 30, 1996	--	101,002	46,945,971	--	37,570,595	(20,731,428)
Net loss for the year ended June 30, 1997	--	--	--	--	(4,521,101)	--
Balance, June 30, 1997	\$--	\$101,002	\$46,945,971	\$--	\$33,049,494	\$(20,731,428)

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,	1997	1996	1995
Cash flows from operating activities:			
Net income (loss)	\$(4,521,101)	\$ 1,826,594	\$8,823,064
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities, excluding the effects of acquisitions:			
Depreciation and amortization	5,572,188	3,954,989	2,897,708
Tax benefits relating to employee stock options	--	--	939,824
Decrease (increase) in accounts receivable, net	2,871,621	1,702,297	(4,230,876)
Decrease (increase) in inventories	1,993,499	(4,156,653)	(3,325,328)
Decrease (increase) in income taxes receivable	2,285,224	(2,285,224)	--
Decrease in other current assets	1,168,686	2,276,486	1,871,659
Increase (decrease) in accounts payable	943,936	3,191,348	(223,020)
Increase (decrease) in other accrued liabilities	1,027,393	(4,325,109)	(7,096,196)
Increase (decrease) in deferred income taxes - noncurrent	(2,451,982)	315,892	1,309
	-----	-----	-----
Net cash provided by (used in) operating activities	8,889,464	2,500,620	(341,856)
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditures, net	(58,610)	(3,649,284)	(6,279,387)
Acquisition of B&F - Net of cash acquired	--	--	(11,208,000)
Acquisition of Bear - Net of cash acquired	--	--	(15,191,193)
Acquisition of BiCore - Net of cash acquired	--	--	(4,699,102)
Acquisition of DPI - Net of cash acquired	--	--	(600,000)
Acquisition of Omni-Tech - Net of cash acquired	--	(1,557,000)	--
Acquisition of operating rights and licenses	--	--	(100,000)
	-----	-----	-----
Net cash used in investing activities	(58,610)	(5,206,284)	(38,077,682)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	5,000,000	16,600,000	61,750,000
Payment of long-term debt	(4,662,785)	(63,192,220)	(26,515,878)
Borrowings under revolving credit agreement	27,365,170	56,100,000	26,088,000
Payments under revolving credit agreement	(35,810,605)	(28,100,000)	(22,798,000)
Proceeds from issuance of common stock	--	25,755,993	171,985

Debt issuance costs	(677,563)	(1,186,351)	--
Dividends paid on common stock	(545,768)	(1,957,577)	(1,566,729)
Proceeds from payments on stock subscriptions receivable	--	--	70,627
Net cash provided by (used in) financing activities	(9,331,551)	4,019,845	37,200,005
Net increase (decrease) in cash and equivalents	(500,697)	1,314,181	(1,219,533)
Cash and equivalents at beginning of period	1,489,133	174,952	1,394,485
Cash and equivalents at end of period	\$ 988,436	\$ 1,489,133	\$ 174,952
	=====	=====	=====
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 6,614,365	\$ 4,142,070	\$ 3,964,112
Income taxes	\$ 138,339	\$ 2,587,091	\$ 1,082,290
Supplemental schedule of noncash investing and financing activities:			
Equipment acquired through capital leases	\$ 2,157,967	\$ 2,452,565	--
Issuance of common stock in the acquisition of B&F Medical Products, Inc.	--	--	\$10,003,200

See accompanying Notes to Consolidated Financial Statements

ALLIED HEALTHCARE PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Allied Healthcare Products, Inc. (the Company or Allied) is a manufacturer of respiratory products used in the health care industry in a wide range of hospital and alternate site settings, including sub-acute care facilities, home health care and trauma care. The Company's product lines include respiratory therapy equipment, medical gas equipment and emergency medical products.

2. ACQUISITIONS

The following table summarizes certain information regarding the Company's acquisitions during the previous three years:

DATE	BUSINESS	PRODUCTS	(Dollars in millions) Purchase Price
December 1993	Life Support Products, Inc. ("LSP")	Emergency medical equipment	\$15.7
March 1994	Hospital Systems, Inc. ("HSI")	Headwall products	2.2
September 1994	B&F Medical Products, Inc. ("B&F")	Home health care & respiratory therapy products	21.5
February 1995	Bear Medical Systems, Inc. ("Bear")	Critical care ventilators	15.4
May 1995	BiCore Monitoring Systems, Inc. ("BiCore")	Monitoring systems & equipment for ventilators	4.7
June 1995	Design Principles, Inc. ("DPI")	Emergency medical equipment	0.6
November 1995	Omni-Tech Medical, Inc. ("Omni-Tech")	Transport ventilators	1.6

The above acquisitions were each accounted for under the purchase method of accounting. Such acquisitions were primarily financed through bank borrowings, except B&F which included the issuance of 640,000 shares of Allied common stock. The purchase price of each acquisition has been allocated to the assets acquired and liabilities assumed, based on their estimated fair values at the date of acquisition. The excess of purchase price over the estimated fair value of net assets acquired is recorded as goodwill. Results of operations of each acquired Company have been included in Allied's consolidated statement of operations from the date of acquisition.

The following table sets forth pro forma information for Allied as if each of the previously discussed acquisitions had taken place on July 1, 1994. This information is unaudited and does not purport to represent actual revenue, net income and earnings per share had the acquisitions actually occurred on July 1, 1994.

	Pro Forma Information (unaudited)	
	YEAR ENDED JUNE 30 (000'S)	
	1996	1995
Net sales	\$ 120,324	\$ 133,873
Net income	\$ 1,951	\$ 8,902
Earnings per share	\$.26	\$ 1.44
Weighted average shares outstanding	7,378,478	6,177,054

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Allied are described below. The policies utilized by the Company in the preparation of the financial statements conform to generally accepted accounting principles, and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances are eliminated.

REVENUE RECOGNITION

Revenue from the sale of the Company's products is recognized upon shipment to the customer. Costs and related expenses to manufacture the Company's products are recorded as cost of sales when the related revenue is recognized.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. Book cash overdrafts on the Company's disbursement accounts totaling \$3,867,477 and \$1,270,385 at June 30, 1997 and 1996, respectively, are included in accounts payable.

CONCENTRATIONS OF CREDIT RISK

At June 30, 1997 and 1996, the Company's trade receivables are comprised as follows:

	1997	1996
	----	----
Medical equipment distributors.....	74%	75%
Construction contractors.....	16%	15%
Health care institutions.....	10%	10%

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for potential credit losses and historically such losses have been within management's expectations. At June 30, 1997 the Company had no significant concentrations of credit risk.

INVENTORIES

Inventories are stated at the lower of cost, determined using the last-in, first-out (LIFO) method, or market. If the first-in, first-out (FIFO) method (which approximates replacement cost) had been used in determining cost, inventories would have been \$511,626 and \$253,996 higher at June 30, 1997 and 1996, respectively. Inventories include the cost of materials, direct labor and manufacturing overhead.

Inventory amounts are net of a reserve for obsolete and excess inventory of \$1,689,000 and \$1,812,542 at June 30, 1997 and 1996, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at cost and is depreciated using the straight-line method over the estimated useful lives of the assets which range from 3 to 36 years. Properties held under capital leases are recorded at the present value of the non-cancelable lease payments over the term of the lease and are amortized over the shorter of the lease term or the estimated useful lives of the assets. Expenditures for repairs, maintenance and renewals are charged to income as incurred. Expenditures which improve an asset or extend its estimated useful life are capitalized. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

GOODWILL

The excess of the purchase price over the fair value of net assets acquired in business combinations is capitalized and amortized on a straight-line basis over the estimated period benefited, not to exceed 40 years. The amortization period for all acquisitions to date range from 20 to 40 years. Amortization expense for the years ended June 30, 1997, 1996 and 1995 was \$1,473,164, \$1,446,756, and \$1,065,733 respectively. Accumulated amortization at June 30, 1997 and 1996 was \$5,347,843 and \$3,874,679 respectively. The carrying value of goodwill is assessed for recoverability by management based on an analysis of future expected cash flows from the underlying operations of the Company. Management believes that there has been no impairment at June 30, 1997.

OTHER ASSETS

Other assets are primarily comprised of debt issuance costs. Such costs are being amortized on a straight-line basis over the life of the related obligations.

INCOME TAXES

The Company files a consolidated federal income tax return which includes its wholly-owned subsidiaries. The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109). Under FAS 109, the deferred tax provision is determined using the liability method, whereby deferred tax assets and liabilities are recognized based upon temporary differences between the financial statement and income tax basis of assets and liabilities using presently enacted tax rates.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income in the year incurred and are included in selling, general and administrative expenses. Research and development expense for the years ended June 30, 1997, 1996 and 1995 was \$3,684,702, \$3,255,067 and \$2,486,622, respectively.

EARNINGS PER SHARE

Earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares and share equivalents outstanding during the period, as adjusted for stock splits. The weighted average number of shares outstanding for the years ended June 30, 1997, 1996 and 1995 was 7,796,682, 7,378,478 and 6,066,588 shares, respectively. Options under the Company's employee's and director's stock option plans are not included as common stock equivalents for earnings per share purposes since they did not have a material dilutive effect.

In March 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (FAS 128), which requires public entities to present both basic and diluted earnings per share amounts on the face of their financial statements, replacing the former calculations of primary and fully diluted earnings per share. The Company will adopt FAS 128 effective with its fiscal 1998 second quarter, and anticipates that, when adopted, FAS 128 will not have a material effect on its reported earnings per common share.

EMPLOYEE STOCK-BASED COMPENSATION

The Company accounts for employee stock options and variable stock awards in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees" (APB 25). Under APB 25, the Company applies the intrinsic value method of accounting. For employee stock options accounted for using the intrinsic value method, no compensation expense is recognized because the options are granted with an exercise price equal to the market value of the stock on the date of grant. For variable stock awards accounted for using the intrinsic value method, compensation cost is estimated and recorded each period from the date of grant to the measurement date based on the market value of the stock at the end of each period.

During fiscal 1996, Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Basic Compensation" (FAS 123), became effective for the Company. FAS 123 prescribes the recognition of compensation expense based on the fair value of options or stock awards determined on the date of grant. However, FAS 123 allows companies to continue to apply the valuation methods set forth in APB 25. For companies that continue to apply the valuation methods set forth in APB 25, FAS 123 mandates certain pro forma disclosures as if the fair value method had been utilized. See Note 9 for additional discussion.

4. FINANCING

Long-term debt consisted of the following at June 30, 1997 and 1996:

UNSUBORDINATED DEBT	1997 ----	1996 ----
Notes payable to bank under a term loan, revolving credit facility and an acquisition term, secured by virtually all assets of the Company:		
Term Loan - principal due at maturity on July 31, 1998.....	\$5,000,000	--
Term Loan -- principal due in quarterly installments of \$750,000 through June 30, 1998 with remaining balance due July 31, 1998.....	9,750,000	\$12,750,000
Revolving credit facility -- aggregate revolving commitment of \$40,000,000; principal due at maturity on July 31, 1998.....	26,554,565	35,000,000
Acquisition Term Loan - principal due in quarterly installments of \$64,000 through June 30, 1998 with remaining balance due on July 31, 1998.....	1,344,000	1,600,000
Other.....	62,690	76,135
	-----	-----
	42,711,255	49,426,135
	-----	-----

SUBORDINATED DEBT

Industrial Development Revenue Bonds -- principal due in annual installments of \$200,000 through March 1, 1998; \$250,000 through March 1, 2000; \$255,000 at maturity on March 1, 2001; interest payable monthly at variable rates (4.6% at June 30, 1997).....	955,000	1,155,000
Capital lease obligations.....	3,265,817	2,301,190
	-----	-----
	4,220,817	3,456,190
	-----	-----
	46,932,072	52,882,325
Less--Current portion of long-term debt, including \$676,357 and \$635,336 of capital lease obligations.....	(12,890,772)	(3,848,780)
	-----	-----
	\$34,041,300	49,033,545
	=====	=====

On September 20, 1996, the Company amended its existing credit facilities with its commercial bank syndicate . The credit agreement, as amended, provided for borrowings of \$21,600,000 under term loans, and \$40,000,000 under a revolving loan, subject to certain limitations based on eligible accounts receivable, eligible inventory and outstanding letters of credit. Such loans bear interest at the London Interbank Offered Rate (LIBOR) or at a base rate plus a specified percentage as set forth within the loan agreement. The interest rate under each option is determined by the Company's ratio of total indebtedness to cash flow. As of June 30, 1997, interest on the facilities ranged from approximately 8.75% to 11.5%.

The revolving agreement requires a commitment fee of 0.25% to 0.37% per annum, depending on the Company's ratio of total indebtedness to cash flow, payable quarterly on the unused portions of the loans.

The credit facilities contain restrictions and requirements, including limitations on capital expenditures, new indebtedness (including lease agreements) and the maintenance of certain minimum operating cash flow and net worth levels, among others. At June 30, 1997, the Company was in violation of certain of these covenants for which waivers have been received through August 15, 1997.

On August 8, 1997, the Company refinanced amounts outstanding under the term loans and revolving credit facility with its commercial bank syndicate as further discussed in Note 14. Current maturities of long-term obligations at June 30, 1997 are classified based upon the payment terms of this new credit agreement.

The book value of long-term debt at June 30, 1997 approximates fair value.

5. LEASE COMMITMENTS

The Company leases certain of its electronic data processing equipment under non-cancelable lease agreements. These agreements extend for a period of up to 60 months and contain purchase or renewal options on a month-to-month basis. The leases are reflected in the consolidated financial statements as capitalized leases in accordance with the requirements of Statement of Financial Accounting Standards No. 13 (FAS 13), "Accounting for Leases". In addition, the Company leases certain manufacturing facilities under noncancelable operating leases. These leases are reflected in the consolidated financial statements as operating leases in accordance with FAS 13.

Minimum lease payments under long-term capital leases and the operating leases at June 30, 1997 are as follows:

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
1998.....	\$ 1,100,481	\$ 869,832
1999.....	866,629	446,976
2000.....	772,657	69,120
2001.....	762,412	57,600
2002.....	803,432	--
	-----	-----
Total minimum lease payments.....	\$ 4,305,611	\$1,443,528
		=====
Less amount representing interest.....	(1,039,795)	

Present value of net minimum lease payments, including current portion of \$676,357.....	\$ 3,265,816	
	=====	

Rental expense incurred on the operating leases in fiscal 1997, 1996 and 1995 totaled \$686,168, \$881,318, and \$558,190, respectively.

6. INCOME TAXES

The provision (benefit) for income taxes consisted of the following:

	1997	1996	1995
	----	----	----
Current Payable:			
Federal.....	\$ --	\$ 40,240	\$3,335,097
State.....	--	--	488,608
Total Current.....	--	40,240	3,823,705
Deferred:			
Federal.....	(1,214,731)	1,217,979	1,767,979
State.....	(212,985)	214,937	262,051
	-----	-----	-----
Total Deferred	(1,427,716)	1,432,916	2,030,030
	-----	-----	-----
	\$(1,427,716)	\$1,473,156	\$5,853,135
	=====	=====	=====

Income taxes were (24.0%), 44.6% and 39.9% of pre-tax earnings (losses) in 1997, 1996 and 1995, respectively. A reconciliation of income taxes, with the amounts computed at the statutory federal rate follows:

	1997	1996	1995
	----	----	----
Computed tax at federal statutory rate.....	\$(2,022,597)	\$1,121,915	\$5,036,880
State income taxes, net of federal tax benefit.....	(160,989)	169,770	498,653
Goodwill.....	491,854	482,876	366,010
Other, net.....	264,016	(301,405)	(47,868)
	-----	-----	-----
Total.....	\$(1,427,716)	\$1,473,156	\$ 5,853,735
	=====	=====	=====

The deferred tax assets and deferred tax liabilities recorded on the balance sheet as of June 30, 1997 and 1996 are as follows:

	AT JUNE 30, 1997		AT JUNE 30, 1996	
	Deferred TAX ASSETS	Deferred TAX LIABILITIES	Deferred TAX ASSETS	Deferred TAX LIABILITIES
Current:				
Bad Debts.....	\$479,175	--	\$165,933	--
Accrued Liabilities.....	635,160	--	990,360	--
Inventory.....	--	\$698,390	--	\$731,879
Net operating loss carryforward...	--	--	698,377	--
Other.....	--	80,000	237,420	--
	1,114,335	778,390	2,092,090	731,879
Non Current:				
Depreciation.....	--	319,066	--	411,969
Other property basis.....	--	451,918	--	449,083
Intangible assets.....	438,678	--	118,250	--
Net operating loss carryforward...	2,703,228	--	--	--
Other	383,133	--	--	306,127
	3,141,906	1,154,117	118,250	1,167,179
Valuation allowance.....	(322,720)	--	(322,720)	--
Total deferred taxes.....	\$3,933,521	\$1,932,507	\$1,887,620	\$1,899,058

At June 30, 1997, the Company had \$2,703,228 of net operating loss carryforwards available to offset future regular taxable income. Such carryforwards, which may provide future tax benefits, expire as follows: \$698,377 in 2011 and \$2,004,851 in 2012.

Management believes the Company will obtain the full benefit of net operating loss carryforwards on the basis of its evaluation of the Company's anticipated profitability over the period of years that the net operating losses can be utilized. There can be no assurance that the Company will generate any specific level of continuing earnings.

7. RETIREMENT PLAN

The Company offered several retirement savings plans under Section 401(k) of the Internal Revenue Code to certain eligible salaried employees. Each employee may elect to enter a written salary deferral agreement under which a portion of such employee's pre-tax earnings may be contributed to the plan.

During the fiscal years ended June 30, 1997, 1996 and 1995 the Company made contributions of \$601,338, \$535,017 and \$439,427, respectively.

8. RELATED PARTIES

In 1994, Allied entered into an agreement with entities controlled by a significant shareholder of the Company for such entities to provide certain corporate development, consulting and advisory services to the Company. Charges under this agreement for direct management and administrative services provided to the Company for the years ended June 30, 1996 and 1995 were \$180,821 and \$138,693, respectively. Charges under this agreement for the year ended June 30, 1997 were not material to the Company's consolidated financial statements. Payments under this agreement in fiscal 1995 also included \$408,310 for corporate development

services provided in connection with the B&F, Bear and BiCore acquisitions. Such agreement was canceled in 1997.

9. SHAREHOLDERS' EQUITY

On October 4, 1995, the Company completed the sale of 1,610,000 shares of its common stock in a public offering which yielded net proceeds to the Company of \$25.7 million. The proceeds were used to reduce debt and to provide financing for future growth. As of June 30, 1997, the number of outstanding shares is 7,796,682.

The Company has established a 1991 Employee Non-Qualified Stock Option Plan as well as a 1994 Employee Stock Option Plan (Employee Plans). The Employee Plans provide for the granting of options to the Company's executive officers and key employees to purchase shares of common stock at prices equal to the fair market value of the stock on the date of grant. Options to purchase up to 800,000 shares of common stock may be granted under the Employee Plans. Options currently outstanding entitle the holders to purchase common stock at prices ranging between \$6.75 and \$18.25, subject to adjustment. Options shall become exercisable with respect to one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the second anniversary of the date granted, except certain options granted under the 1994 Employee Stock Option Plan which become exercisable when the fair market value of common stock exceeds required levels. The right to exercise the options expires in ten years, from the date of grant, or earlier if an option holder ceases to be employed by the Company.

In addition, the Company has established a 1991 Directors Non-Qualified Stock Option Plan and a 1995 Directors Non-Qualified Stock Option Plan (Directors Plans). The Directors Plans provide for the granting of options to the Company's Directors who are not employees of the Company to purchase shares of common stock at prices equal to the fair market value of the stock on the date of grant. Options to purchase up to 250,000 shares of common stock may be granted under the Directors Plans. Options currently outstanding entitle the holders to purchase common stock at prices ranging between \$7.13 and \$18.25, subject to adjustment. Options shall generally become exercisable with respect to one-fourth of the shares covered thereby on each anniversary of the date of grant, commencing on the second anniversary of the date granted. The right to exercise the options expires in ten years from the date of grant, or earlier if an option holder ceases to be a Director of the Company.

A summary of stock option transactions in 1997 and 1996, respectively, pursuant to the Employee Plans and the Directors Plans follows:

	AVERAGE PRICE	Shares Subject TO OPTION
	-----	-----
June 30, 1995	\$13.36	388,000
Options Granted	17.58	63,500
Options Exercised	8	(1,174)
Options Canceled	15.96	(36,726)

June 30, 1996	\$13.79	413,600

Exercisable at June 30, 1996		118,875
		=====
June 30, 1996	\$13.79	413,600
Options Granted	6.9	358,000
Options Exercised	--	--
Options Canceled	11.47	(177,100)

June 30, 1997	\$ 9.22	594,500

Exercisable at June 30, 1997		163,700
		=====

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," requires companies to measure employee stock compensation plans based on the fair value method of accounting. However, the Statement allows the alternative of continued use of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," with pro forma disclosure of net income and earnings per share determined as if the fair value based method had been applied in measuring compensation cost. The Company adopted the new standard in the fiscal year ending June 30, 1997, and elected the continued use of APB Opinion No. 25. Pro forma disclosure has not been provided, as the effect on fiscal year 1997 and 1996 net earnings was immaterial.

10. EXPORT SALES

Export sales for the years ended June 30, 1997, 1996 and 1995 are comprised as follows (in thousands):

	1997	1996	1995
	----	----	----
Europe	\$ 9,300	\$ 7,500	\$ 5,100
Canada	2,600	2,300	2,900
Latin American	6,300	5,600	4,600
Middle East	3,200	2,900	2,100
Far East	9,400	9,000	7,200
Other	3,700	3,500	2,300
	-----	-----	-----
	\$34,500	\$30,800	\$24,200
	=====	=====	=====

11. SUPPLEMENTAL BALANCE SHEET INFORMATION

	1997	June 30, 1996
	----	----
INVENTORIES		
Work in Progress	\$ 2,726,585	\$ 2,563,773
Component parts	18,679,482	18,607,893
Finished goods	4,646,924	6,874,824
	-----	-----
	\$ 26,052,991	\$ 28,046,490
	=====	=====
PROPERTY, PLANT AND EQUIPMENT		
Machinery and equipment	\$14,880,513	\$ 15,167,835
Buildings	13,508,251	13,476,157
Land and land improvements	989,516	989,516
Property held under capital leases	5,382,529	3,224,563
	-----	-----
Total property, plant and equipment at cost	\$34,760,809	\$32,858,071

Less accumulated depreciation and amortization, including \$1,610,867 and \$447,306, respectively, related to property held under capital leases

(13,911,939) (10,889,567)

\$ 20,848,870 \$ 21,968,504

=====

OTHER ACCRUED LIABILITIES

Accrued compensation expense \$ 2,215,548 \$ 1,777,669
 Acquisition reserves 948,639 2,192,758
 Accrued interest expense 1,324,010 332,246
 Accrued income tax 376,910 --
 Other 1,132,563 1,213,372

\$ 5,997,670 \$ 5,516,045

=====

The Company reduced its reserves recorded in connection with the acquisitions discussed in Note 2 by approximately \$1.2 million, net, in fiscal 1997 and \$2.0 million, net, in fiscal 1996. These reductions primarily related to cash payments of various costs directly attributable to these acquisitions, including severance, facility rationalization and related matters and consulting fees. The remaining acquisition reserves of approximately \$950,000 at June 30, 1997 are expected to be liquidated over the next year.

12. COMMITMENTS AND CONTINGENCIES

From time to time, the Company becomes party to various claims and legal actions arising during the ordinary course of business. Management believes that the Company's costs and any potential judgments resulting from such claims and actions would be covered by the Company's product liability insurance, except for deductible limits and self-insured retention. The Company intends to defend such claims and actions in cooperation with its insurers. It is management's opinion that, in any event, their outcome would not have a material effect on the Company's financial position or results of operations.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for fiscal 1997 and 1996 appears below (all amounts in thousands except per share data):

NET SALES

1997 1996

First Quarter \$ 29,134 \$ 31,189
 Second Quarter 28,389 28,439
 Third Quarter 30,466 30,334
 Fourth Quarter 30,129 30,161

Total Year \$118,118 \$120,123

=====

GROSS PROFIT

	1997	1996
First Quarter	\$ 9,240	\$ 12,338
Second Quarter	8,725	9,889
Third Quarter	9,725	9,772
Fourth Quarter	8,063	7,574
Total Year	\$ 35,753	\$ 39,573

NET INCOME (LOSS)

	1997	1996
First Quarter	\$ (177.3)	\$ 1,995.8
Second Quarter	(556.4)	1,011.7
Third Quarter	(302.3)	977.8
Fourth Quarter	(3,485.1)	(2,158.7)
Total Year	\$(4,521.1)	\$ 1,826.6

EARNINGS (LOSS) PER SHARE

	1997	1996
First Quarter	\$ (.02)	\$.32
Second Quarter	(.07)	.11
Third Quarter	(.04)	.12
Fourth Quarter	(.45)	(.30)
Total Year	\$ (.58)	\$.25

Results of operations in the fourth quarter of fiscal 1997 were adversely impacted by a variety of factors. The macroeconomic factors discussed below relative to the fourth quarter of 1996 continued in 1997. The nineteen day work stoppage at the Company's St. Louis, Missouri facility in June 1997 resulted in a permanent loss in sales, margin declines, and plant inefficiencies. Interest expense increased to \$3.3 million in the fourth quarter of fiscal 1997 primarily due to fees paid to the Company's commercial bank group to obtain waivers for technical covenant violations and for other matters related to its borrowing agreement. Finally, based on management's assessment of facts related to or culminating in the fourth quarter of fiscal 1997, the Company increased certain reserves and recorded other charges to operations during the fourth quarter which totaled approximately \$2.0 million. Included in these charges were certain adjustments to the carrying value of the Company's inventories of \$1.0 million, an increase to the allowance for doubtful accounts of \$0.6 million, \$0.3 million for the settlement of a lawsuit related to a pre-acquisition matter at one of the Company's acquired subsidiaries and \$0.1 million for a new product licensing agreement. As a result, fourth quarter fiscal 1997 net sales were \$30.1 million while the net loss was \$3.5 million compared to fourth quarter net sales of \$30.2 million and a net loss of \$2.2 million in the prior year.

The fiscal 1996 fourth quarter results of operations were adversely impacted by numerous factors. Core domestic markets, which had experienced softness since the second quarter of fiscal 1996, continued to be adversely impacted by numerous external and internal factors. The ongoing consolidation of the Company's health care provider customers and the continued uncertainty in their marketplace caused by health care reform adversely impacted operating results. In addition, the integration of the Company's recent complementary acquisitions has

been more difficult than anticipated and had particularly negative ramifications on the fourth quarter of fiscal 1996. During the fourth quarter of fiscal 1996, the Company made significant investments in financial and human resources to position itself to realize the potential synergies of these acquisitions. Specifically, during the fourth quarter, the Company significantly invested in recruiting and training its ventilation product line field sales force which had experienced high turnover levels. Further, the decline in manufacturing volumes in certain product lines in the fourth quarter of fiscal 1996 resulted in the expensing of a portion of fixed plant overhead costs as period costs, further adversely impacting margins and operating results. As a result of these factors, fourth quarter fiscal 1996 net sales were \$30.2 million while the net loss was \$2.2 million compared to fourth quarter sales of \$33.8 million and net income of \$2.8 million in the fourth quarter of fiscal 1995.

14. SUBSEQUENT EVENT

REFINANCING

On August 8, 1997, the Company entered into a new credit agreement with a commercial lender (the Credit Agreement) which provides borrowings of \$25 million under a revolving credit facility and \$21 million under three term loan facilities. In conjunction with the new Credit Agreement, Allied placed an additional \$5.0 million in subordinated debt financing with certain shareholders of the Company. The Company used the funds provided by the new credit agreements to extinguish amounts outstanding under the revolving credit facility and term loans with its existing commercial bank syndicate which were described previously in Note 4.

The revolving credit facility provides for borrowings of up to the lesser of \$25,000,000 or the borrowing base, less any outstanding letter of credit obligations. The borrowing base is defined by the Credit Agreement as (a) 85% of eligible domestic receivables plus (b) 85% of eligible foreign receivables not to exceed \$8,000,000 plus (c) 45% of eligible inventories not to exceed \$10,000,000. Such amounts are reduced by various reserves as defined in the Credit Agreement. The revolving credit facility bears interest at the floating Reference Rate (8.5% at August 8, 1997) plus 0.50% and is payable monthly. The Reference Rate, as defined in the Credit Agreement, is the variable rate of interest, per annum, most recently announced by Norwest Bank Minnesota, National Association, or any successor thereto, as its "base rate". The Credit Agreement requires an underutilization fee of 0.25% per annum, payable monthly, on any unused portion of the revolving credit facility. Amounts outstanding under this revolving credit facility, which expires on August 8, 2000, totaled \$18,989,066 at August 8, 1997. At August 8, 1997, \$4,138,141 was available under the revolving credit facility for additional borrowings.

The Credit Agreement provides term loan facilities in the amounts of \$10,000,000 (Term Loan A), \$7,000,000 (Term Loan B), and \$4,000,000 (Term Loan C), respectively. Term Loan A is due in varying monthly maturities ranging from \$104,167 to \$1,541,667, commencing October 1, 1997 with final payment due on August 8, 2000. Term Loan B is due in varying monthly maturities ranging from \$229,167 to \$354,167, commencing October 1, 1997 with final payment due on September 1, 1999. Term Loan C is due on February 8, 1998, or earlier as specified in the Credit Agreement. Interest accrues on Term Loan A at the floating Reference Rate plus 0.50% and on Term Loans B and C at 14% per annum. Interest is payable monthly on all term loan facilities.

The Credit Agreement also provides for the issuance of letters of credit on behalf of the Company in amounts up to \$3,000,000 in the aggregate. The Company is required to pay a fee of 1.0% per annum on the outstanding balance.

The Company entered into a Note Purchase Agreement in conjunction with the August 8, 1997 refinancing for the issuance of a \$5,000,000 subordinated note payable to certain shareholders of the Company due February 7, 1998. The note payable is subordinated to the Credit Agreement with a commercial lender and bears interest at a rate of 14% per annum, payable monthly.

The above described agreements contain restrictions and requirements, including limitations on capital expenditures, new indebtedness, and dividend payments, and the achievement of certain earning levels and the maintenance of minimum net worth, among others.

Aggregate maturities of long-term debt, excluding capital leases, for each of the fiscal years subsequent to June 30, 1997 are as follows:

	Term A	Term B	Term C	Revolving Credit Facility	Subordinated Debt	Industrial Development Revenue Bonds	Other	Total
1998	\$937,500	\$2,062,500	\$4,000,000	--	\$5,000,000	\$200,000	\$14,415	\$12,214,415
1999	1,250,000	3,875,000	--	--	--	250,000	15,457	5,390,457
2000	5,187,500	1,062,500	--	--	--	250,000	16,575	6,516,575
2001	2,625,000	--	--	18,989,066	--	255,000	16,244	21,885,310
	\$10,000,000	\$7,000,000	\$4,000,000	\$18,989,066	\$5,000,000	\$955,000	\$62,691	\$46,006,757

In addition to the above payments, certain additional principal reductions may be required under the Company's Term Loan B based on annual excess cash flows, as defined in the Credit Agreement.

Debt issuance costs approximating \$700,000 were incurred in the refinancing and are being deferred and amortized over the term of the Credit Agreement. Unamortized costs incurred in conjunction with the original credit facilities with the bank syndicate totaled \$980,000. These costs, net of applicable income tax benefits of \$392,000, were written off during the first quarter of fiscal 1998 and accounted for as an extraordinary loss.

COMMON STOCK WARRANTS

In conjunction with the refinancing, 62,500 warrants were issued to the holders of the subordinated note payable and 50,000 warrants were issued to the commercial lender providing the revolving credit facilities and the term loan facilities. Each warrant entitles the holder to purchase one share of common stock at \$7.025 per share through August 7, 2002.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL

DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

A definitive proxy statement is expected to be filed with the Securities and Exchange Commission on or about October 10, 1997. The information required by this item is set forth under the caption "Election of Directors" on pages 2 through 4, under the caption "Executive Officers" on page 7 and under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" on page 17 of the definitive proxy statement, which information is incorporated herein by reference thereto.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the caption "Executive Compensation" on pages 9 through 16 of the definitive proxy statement, which information is incorporated herein by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" on pages 5 through 7 of the definitive proxy statement, which information is incorporated herein by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is set forth under the caption "Certain Transactions" on page 17 of the definitive proxy statement, which information is incorporated herein by reference thereto.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

1. FINANCIAL STATEMENTS

The following consolidated financial statements of the Company and its subsidiaries are included in response to Item 8:

Consolidated Statement of Operations for the years
ended June 30, 1997, 1996 and 1995

Consolidated Balance Sheet at June 30, 1997 and 1996

Consolidated Statement of Changes in Stockholders' Equity
for the years ended June 30, 1997, 1996 and 1995

Consolidated Statement of Cash Flows for the years ended June 30, 1997,
1996 and 1995

Notes to Consolidated Financial Statements

Report of Independent Accountants

2. FINANCIAL STATEMENT SCHEDULES

Report of Independent Accountants on Financial Statement Schedule

Valuation and Qualifying Accounts and Reserves for the Years
Ended June 30, 1997, 1996 and 1995

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

3. EXHIBITS

The exhibits listed on the accompanying Index to Exhibits are filed as part of this Report.

4. REPORTS ON FORM 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLIED HEALTHCARE PRODUCTS, INC.

By: /S/ BARRY F. BAKER

Barry F. Baker
Vice President-Finance and Chief
Financial Officer

Dated: September 26, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on September 25, 1997.

SIGNATURES -----	TITLE -----
* ----- Dennis W. Sheehan	Chairman of the Board
* ----- Uma N. Aggarwal	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Barry F. Baker ----- Barry F. Baker	Vice President-Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
* ----- David A. Gee	Director
* ----- Samuel A. Hamacher	Director
* ----- James C. Janning	Director
* ----- Robert E. Lefton	Director
* ----- Donald E. Nickelson	Director
* ----- William A. Peck	Director
* ----- John D. Weil	Director

*By: /S/ BARRY F. BAKER

Barry F. Baker
Attorney-in-Fact

- -----
*Such signature has been affixed pursuant to the following Power of Attorney.

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of Uma N. Aggarwal and Barry F. Baker as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1997 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of
Allied Healthcare Products, Inc.

Our audits of the consolidated financial statements referred to in our report dated August 13, 1997, appearing in the 1997 Annual Report to Shareholders of Allied Healthcare Products, Inc. on Form 10-K (which report and consolidated financial statements are included herein) also included an audit of the Financial Statement Schedule listed in item 14(2) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE LLP

St. Louis, Missouri
August 13, 1997

ALLIED HEALTHCARE PRODUCTS, INC.
 RULE 12-09 VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS- DESCRIBE	DEDUCTIONS- DESCRIBE	BALANCE AT END OF PERIOD

FOR THE YEAR ENDED JUNE 30, 1997

Reserve For Doubtful Accounts	(\$422,517)	(\$1,058,999)		\$256,190(1)	(\$1,225,326)
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Inventory Allowance For Obsolescence and Excess Quantities	(\$1,812,542)	(\$154,357)		\$277,899(2)	(\$1,689,000)
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FOR THE YEAR ENDED JUNE 30, 1996

Reserve For Doubtful Accounts	(\$590,459)	(\$107,871)		\$275,813(3)	(\$422,517)
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Inventory Allowance For Obsolescence and Excess Quantities	(\$4,349,467)	\$83,700		\$2,453,225(4)	(\$1,812,542)
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FOR THE YEAR ENDED JUNE 30, 1995

Reserve For Doubtful Accounts	(\$320,000)	\$124,205		(\$394,664)(5)	(\$590,459)
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Inventory Allowance For Obsolescence and Excess Quantities	(\$812,389)	\$469,664		(\$4,006,742)(6)	(\$4,349,467)
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(1) Decrease due to bad debt write-offs, bad debt recoveries and changes in estimate.

(2) Decrease due to inventory disposed of and changes in estimate.

(3) Decrease due to bad debt write-offs, bad debt recoveries and changes in estimate. Offsetting increase of \$80,000 due to the acquisition of Omni-Tech Medical, Inc.

(4) Decrease due to inventory disposed of and changes in estimate. Offsetting increase of \$105,470 due to the acquisition of Omni-Tech Medical, Inc.

(5) Increase of \$404,993 due to the acquisition of B&F Medical Products, Inc., Bear Medical Systems, Inc. and BiCore Monitoring Systems, Inc. Offsetting decrease due to bad debt write-offs, bad debt recoveries and changes in estimate.

(6) Increase of \$5,369,689 due to the acquisition of B&F Medical Products, Inc., Bear Medical Systems, Inc. and BiCore Monitoring Systems, Inc. Offsetting decrease due to inventory disposed of and changes in estimate.

INDEX TO EXHIBITS

Exhibit

NO.	DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation of the Registrant (filed as Exhibit 3(1) to the Company's Registration Statement on Form S-1, as amended, Registration No. 33-40128, filed with the Commission on May 8, 1991 (the "Registration Statement") and incorporated herein by reference)
3.2	By-Laws of the Registrant (filed as Exhibit 3(2) to the Registration Statement and incorporated herein by reference)
4.1	Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Allied Healthcare Products, Inc. dated August 21, 1996
10.1	Lease Agreement, dated June 30, 1988, between Luke D. Wenger and Shirley A. Wenger and Timeter Instrument Corporation (filed as Exhibit 10(14) to the Registration Statement and incorporated herein by reference)
10.2	NCG Trademark License Agreement, dated April 16, 1982, between Liquid Air Corporation and Allied Healthcare Products, Inc. (filed as Exhibit 10(24) to the Registration Statement and incorporated herein by reference)
10.3	Allied Healthcare Products, Inc. 1991 Directors Non-Qualified Stock Option Plan (filed as Exhibit 10(25) to the Registration Statement and incorporated herein by reference)
10.4	Allied Healthcare Products, Inc. 1991 Employee Non-Qualified Stock Option Plan (filed as Exhibit 10(26) to the Registration Statement and incorporated herein by reference)
10.6	Employee Stock Purchase Plan (filed with the Commission as Exhibit 10(45) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1992 (the "1992 Form 10-K") and incorporated herein by reference)
10.7	Amendment to Allied Healthcare Products, Inc. 1991 Directors Non-Qualified Stock Option Plan dated September 14, 1992 (filed as Exhibit 10(46) to the 1992 Form 10-K and incorporated herein by reference)
10.8	First Amendment to Lease Agreement, dated January 24, 1992, between Luke D. Wenger and Shirley A. Wenger and Timeter Instrument Corporation (filed as Exhibit 10(32) to the 1993 Form 10-K and incorporated herein by reference)
10.9	Allied Healthcare Products, Inc. 1994 Employee Stock Option Plan (filed with the Commission as Exhibit 10(39) to the 1994 Form 10-K and incorporated herein by reference)

- 10.10 Allied Healthcare Products, Inc. 1995 Directors Non-Qualified Stock Option Plan (filed with the Commissioner as Exhibit 10(25) to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995 (the "1995 Form 10-K") and incorporated herein by reference)
- 10.11 Lease dated as of November 4, 1993 between Essup Part and B&F Medical Products, Inc. (filed with the Commission as Exhibit 10(43) to the 1994 Form 10-K and incorporated herein by reference)
- 10.12 Commercial Lease and Deposit Receipt between Hospital Systems, Inc. and 5301 Adeline Associates, a California Limited Partnership (filed with the Commission as Exhibit 10(47) to the 1994 Form 10-K and incorporated herein by reference)
- 10.13 Lease dated as of December 27, 1982 by and between B.M.S./Riverside Limited Partnership and Intermed Holdings, Inc., as amended (filed with the Commission as Exhibit 10(31) to the 1995 Form 10-K and incorporated herein by reference)
- 10.14 Assignment of Lease dated October 3, 1988 by Intermed Holdings, Inc. to Bear Medical Systems, Inc. (filed with the Commission as Exhibit 10(32) to the 1995 Form 10-K and incorporated herein by reference)
- 10.15 Warehouse Lease dated December 7, 1990 by and between Mineola/Hemmer, L.P. and Bear Medical Systems, Inc. (filed with the Commission as Exhibit 10(33) to the 1995 Form 10-K and incorporated herein by reference)
- 10.16 Memorandum of Agreement dated April 19, 1995 covering April 16, 1995 - April 15, 1998 between Allied Healthcare Products, Inc., Chemetron Medical Division and International Chemical Workers Union, Local No. 626 (filed with the Commission as Exhibit 10(35) to the 1995 Form 10-K and incorporated herein by reference)
- 10.17 Consulting and Severance Agreement dated as of September 1, 1996 between Allied Healthcare Products, Inc. and David V. LaRusso (filed with the Commissioner as Exhibit 10(31) to the Company's Annual Report on Form 10-K (the "1996 Form 10-K") and incorporated herein by reference)
- 10.18 Amended and Restated Credit Facilities Agreement dated October 13, 1995 by and among Allied Healthcare Products, Inc. and its subsidiaries and The Boatman's National Bank of St. Louis as agent (filed with the Commission as Exhibit 1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 and incorporated herein by reference)
- 10.19 Underwriting Agreement dated September 28, 1995 by and among Allied Healthcare Products, Inc., and Cowen & Company, Dillon, Read & Co. Inc. and A.G. Edwards & Sons, Inc., as representatives of the underwriters (filed as Exhibit 2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 and incorporated herein by reference)

- 10.20 Allied Healthcare Products, Inc. Amended 1994 Employee Stock Option Plan (filed with the Commissioner as Exhibit 10(28) to the 1996 Form 10-K and incorporated herein by reference)
- 10.21 Amendment Number One to Amended and Restated Credit Facilities Agreement dated April 19, 1996 among The Boatmen's National Bank of St. Louis, as Agent, and The Boatmen's National Bank of St. Louis and the other lenders listed on the signature pages thereof, as Lenders, and Allied Healthcare Products, Inc., and the other borrowers listed on the signature pages thereof, as Borrowers (filed with the Commission as Exhibit 10(29) to the 1996 Form 10-K and incorporated herein by reference)
- 10.22 Amendment Number Two to Amended and Restated Credit Facilities Agreement dated September 23, 1996 among The Boatmen's National Bank of St. Louis, as Agent, and The Boatmen's National Bank of St. Louis and the other lenders listed on the signature pages thereof, as Lenders, and Allied Healthcare Products, Inc., and the other borrowers listed on the signature pages thereof, as Borrowers (filed with the Commission as Exhibit 10(30) to the 1996 Form 10-K and incorporated herein by reference)
- 10.23 Rights Agreement, dated August 21, 1996 by and between Allied Healthcare Products, Inc. and Boatmen's Trust Company, as Rights Agreement (filed with the Commission as an Exhibit to the Company's Current Report on Form 8-K dated August 7, 1995 and incorporated herein by reference)
- 10.24 Employment Agreement dated November 19, 1996 by and between Allied Healthcare Products, Inc. and Uma N. Aggarwal (filed as Exhibit 10(1) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 and incorporated herein by reference)
- 10.25 Option Agreement dated November 19, 1996 between Allied Healthcare Products, Inc. and Uma N. Aggarwal (Filed as Exhibit 10(2) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 and incorporated herein by reference)
- 10.26 Option Agreement dated November 19, 1996 between Allied Healthcare Products, Inc. and Uma N. Aggarwal (filed as Exhibit 10(3) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 and incorporated herein by reference)
- 10.27 Letter Agreement dated December 16, 1997 between Allied Healthcare Products, Inc. and Barry F. Baker (filed as Exhibit 10(4) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 and incorporated herein by reference)
- 10.28 Letter Agreement dated December 16, 1997 Allied Healthcare Products, Inc. and Gabriel S. Kohn (filed as Exhibit 10(5) to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996 and incorporated herein by reference)

- 10.29 Letter Agreement dated December 16, 1997 between Allied Healthcare Products, Inc. and David A. Grabowski (filed as Exhibit 10(6) to the Company's Quarterly Report for the quarter ending December 31, 1996 and incorporated herein by reference)
- 10.30 May 14, 1997 Waiver and Agreement dated May 14, 1997 by and among Allied Healthcare Products, Inc., Life Support Products, Inc., B & F Medical Products, Inc., Hospital Systems, Inc., Bear Medical Systems, Inc. and BiCore Monitoring Systems, Inc., as Borrowers, The Boatmen's National Bank of St. Louis, individually and as Agent under the Loan Agreement and of the other lenders listed on the signature pages thereof.
- 10.31 Loan and Security Agreement, dated as of August 7, 1997 by and among Allied Healthcare Products, Inc., B & F Medical Products, Inc., Bear Medical Systems, Inc., Hospital Systems, Inc., Life Support Products Inc., and BiCore Monitoring Systems, Inc., as Borrowers, and Foothill Capital Corporation
- 10.32 Note Purchase Agreement, dated August 7, 1997 by and among Allied Healthcare Products, Inc., B & F Medical Products, Inc., Bear Medical Systems, Inc., Hospital Systems, Inc., Life Support Products, Inc., BiCore Monitoring Systems, Inc. and the Purchasers named therein
- 10.33 Promissory Note dated August 7, 1997 issued by Allied Healthcare Products, Inc. and purchased by Woodbourne Partners, L.P.
- 10.34 Promissory Note dated August 7, 1997 issued by Allied Healthcare Products, Inc. and purchased by Donald E. Nickelson
- 10.35 Promissory Note dated August 7, 1997 issued by Allied Healthcare Products, Inc. and purchased by Dennis W. Sheehan
- 10.36 Warrant dated August 7, 1997 issued by Allied Healthcare Products, Inc. in favor of Woodbourne Partners, L.P.
- 10.37 Warrant dated August 7, 1997 issued by Allied Healthcare Products, Inc. in favor of Donald E. Nickelson
- 10.38 Warrant dated August 7, 1997 issued by Allied Healthcare Products, Inc. in favor of Dennis W. Sheehan
- 10.39 Agreement effective as of June 1, 1997 between Allied Healthcare Products, Inc. and District No. 9 International Association of Machinists and Aerospace Workers
- 10.40 Agreement dated September 4, 1997 between Hospital Systems, Inc. and Local Union No. 2131 of the International Brotherhood of Electrical Workers covering the period from May 1, 1997 to April 30, 1998
- 10.41 Full-Time Employment Policy Agreement dated July 3, 1997 between B&F Medical Products, Inc. and B&F Employee Committee

- 13 Annual Report to Stockholders
- 21 Subsidiaries of the Registrant
- 23 Consent of Price Waterhouse LLP
- 24 Powers of Attorney

Reference is hereby made to that certain Amended and Restated Credit Facilities Agreement dated as of October 13, 1995 by and among Allied Healthcare Products, Inc., a Delaware corporation ("Allied"), Life Support Products, Inc., a California corporation ("LSP"), B&F Medical Products, Inc., a Delaware corporation, ("B&F"), Hospital Systems, Inc., a California corporation ("HSI"), Bear Medical Systems, Inc., a California corporation ("BMS") and BiCore Monitoring Systems, Inc., a California corporation ("BiCore") (Allied, LSP, B&F, HSI, BMS and BiCore are hereinafter referred to individually and collectively as "Borrower"), The Boatmen's National Bank of St. Louis, ("Boatmen's"), individually and as Agent under the Loan Agreement, and the other lenders listed on the signature pages thereof ("Lender") (as the same has been amended or modified prior to the date hereof, the "Loan Agreement"). Capitalized terms used and not otherwise defined herein shall have the meanings given thereto in the Loan Agreement.

Borrower has notified Lenders that Borrower is not in compliance with certain of the covenants contained in Section 17 of the Loan Agreement with respect to the fiscal period ending March 31, 1997 (the "Affected Period"). Such non-compliance constitutes an Event of Default under the Loan Agreement. Borrower has requested that Lenders waive all Events of Default in connection with the covenants contained in Section 17 with respect to the Affected Period.

Upon the terms and conditions contained herein, Lenders are willing to waive such Events of Default for a limited period of time, as set forth herein, and in consideration of the foregoing, and for other good and valuable consideration, the Borrower, the Agent and the undersigned Lenders hereby agree as follows:

1. **WAIVER.** Borrower hereby represents that it is in non-compliance with the covenants contained in 17.5, 17.7, 17.8, and 17.10 of the Loan Agreement with respect to the Affected Period. Subject to satisfaction of the conditions set forth herein, Lenders hereby agree to waive all Events of Default in connection with Borrower's non-compliance with the covenants contained in 17.5, 17.7, 17.8, and 17.10 of the Loan Agreement with respect to the Affected Period. Lenders further agree to waive the Event of Default occurring pursuant to Section 18.1.9 (vi) of the Loan Agreement as a result of Borrower's corporate resolutions authorizing the filing of a petition in bankruptcy, such resolutions having been enacted on or about May 14, 1997. Borrower hereby represents to Lenders that such resolutions have been rescinded.

2. **WAIVER CHARGES.** In consideration for and as a condition precedent to this Agreement, Borrower hereby agrees that it shall pay to Agent for the ratable benefit of Lenders, "Waiver Charges" as follows:

2.1 **UPFRONT CHARGE.** On May 14, 1997, June 14, 1997 (if the Loan Obligations have not been repaid in full by such date), and July 14, 1997 (if the Loan Obligations have not been repaid in full by such date), Borrower shall pay in cash on each of those days an additional Waiver Charge in the amount of \$50,000.00; and

2.2 **WAIVER CHARGES.** On May 14, 1997, Borrower shall accrue an additional Waiver Charge to the Lenders in the amount of \$300,000.00, which Waiver Charge shall be payable in cash on the Revolver Maturity Date. Commencing August 15, 1997 (if the Loan Obligations have not been repaid in full by such date), and from time to time thereafter, the Agent upon written notice to Borrower may require and cause Allied to issue an amount, calculated as set forth below, of shares (in such name, number of certificates and shares per certificate as the Agent may from time to time specify, including future substitutions and exchanges as may be requested by the Agent to Allied) of the common stock of Allied in exchange for all or a portion of said Waiver Charge. Allied agrees to file a registration statement with respect to the transfer of such shares as soon as practicable following such issuance and agrees to use its best efforts to cause such registration statement to be declared effective as soon as practicable, but in any event within 90 days thereof. The amount of shares to be issued from time to time shall be as follows: the percentage of the Waiver Charge subject to the requested exchange specified in the Agent's notice multiplied by 90,000 shares. Each Lender, upon written notice to Agent, may require the Agent to deliver the notice hereunder and to require the exchange of said Lender's then share amount, or any portion thereof, in the Waiver Charge in the same percentage as said Lender's then percentage share of the Loan Obligations.

3. **SPECIFIC WAIVER.** The waiver made hereby is specific in intent and is valid only for the specific purpose for which given. Except as specifically set forth herein, the execution, delivery and effectiveness of this Agreement shall not operate as a waiver of any right, power or remedy of Agent and Lenders under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents. Nothing contained herein shall obligate Agent and/or Lenders to give additional waivers of any provisions of any of the Loan Documents, including but not limited to Section 17 of the Loan Agreement.

4. AMENDMENTS TO LOAN AGREEMENT.

4.1 Section 20.4.1 of the Loan Agreement is amended by deleting the phrase "to one or more banks or financial institutions." Section 20.4.1.1 of the Loan Agreement is amended by deleting its provisions and inserting the following:

"Agent shall have accepted the assignment, which acceptance shall not be unreasonably withheld."

4.2 Section 15.19 of the Loan Agreement is amended by adding the

following:

"In particular, Borrower promptly upon request shall provide, and shall direct Borrower's advisors and consultants to provide, to the Agent for the benefit of the Lenders such information that the Agent may request from Borrower with respect to Borrower's efforts to (i) sell the Borrower or any of its subsidiaries, divisions, or lines of business; or (ii) refinance all or part of the Indebtedness to the Lenders. Additionally, Borrower within ten days from the date hereof shall retain and thereafter cause the Corporate Finance, Recovery and Dispute Group of Price Waterhouse LLP to provide to the Agent such information that the Agent may require pursuant to Section 15.19, including but not limited to, information and analysis regarding Borrower's proposals for a possible longer term refinancing, restructuring or other repayment of the Loan Obligations, subject to the requirements of the Loan Agreement, including any and all necessary approvals, consents and agreements of the Agent and the Lenders. Price Waterhouse and said Group are hereby authorized and directed by the Borrower to provide such information to the Agent for the benefit of the Lenders. Any requests by the Agent hereunder for information from Price Waterhouse or said Group may not thereafter be withdrawn, absent the approval of the Supermajority Lenders. All fees and expenses payable to Price Waterhouse and said Group shall be the sole responsibility of the Borrower. The Agent and the Lenders shall have no liability or obligation with respect to any of Price Waterhouse's or said Group's fees and expenses.

4.3 For the period ending August 15, 1997, Section 16.2.1 of the Loan Agreement is amended by deleting "90" and inserting "135."

5. REPRESENTATIONS AND WARRANTIES OF BORROWER. Borrower hereby represents and warrants to Lenders that (i) this Agreement has been duly authorized by Borrower's Board of Directors, (ii) no consents are necessary from any third parties for Borrower's execution, delivery or performance of this Agreement, (iii) this Agreement constitutes the legal, valid and binding obligation of Borrower enforceable against Borrower in accordance with its terms except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws related to creditors rights generally or by the application of equity principles, (iv) to the best of Borrower's knowledge, after due inquiry, except as disclosed on the disclosure schedule attached hereto as Exhibit 13, all of the representations and warranties contained in Section 13 of the Loan Agreement, as amended by this Agreement, are true

and correct in all material respects with the same force and effect as if made on and as of the effective date of this Agreement, except that with respect to the representations and warranties made regarding financial data in Section 13.15, such representations and warranties are hereby made with respect to the most recent Financial Statements and other financial data (in the form required by the Loan Agreement) delivered by Borrower to Lenders, (v) to the best of Borrower's knowledge, after due inquiry, there is no Default which is continuing and no Event of Default has occurred under the Loan Agreement as amended by this Agreement, and (vi) the Loan Agreement (as modified by this Agreement) represents the legal, valid and binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except to the extent that the enforceability thereof against Borrower may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforceability of creditor's rights generally or by equitable principles of general application (whether considered in an action at law or in equity). 6. REAFFIRMATION. Borrower hereby acknowledges and confirms that (i) except as expressly amended hereby the Loan Agreement remains in full force and effect, (ii) Borrower has no defenses to its obligation under the Loan Agreement and the other Loan Documents, (iii) the Security Interests of Agent and Lenders under the Security Documents secure all the Loan Obligations under the Loan Agreement as amended by this Agreement, continue in full force and effect and have the same priority as before this Agreement, and (iv) Borrower has no claim against Agent or any Lender arising from or in connection with the Loan Agreement or the other Loan Documents. To the extent Borrower may have any claims against Agent or any Lender arising from or in connection with the Loan Agreement, the other Loan Documents or any act or failure to act on the part of Agent or any Lender prior to the date of this Agreement, Borrower hereby waives and releases the Agent and the Lenders, including any of their officers, directors, agents, advisors, attorneys or representatives, from any and all claims, debts, damages, demands, liabilities, obligations and suits, of whatever kind or nature, and any damages, liabilities, losses, costs or expenses incurred by Borrower and any of its affiliates in connection therewith.

7. GOVERNING LAW. This Agreement has been executed and delivered in St. Louis, Missouri, and shall be governed by and construed under the laws of the State of Missouri without giving effect to choice or conflicts of law principles thereunder.

8. SECTION TITLES. The section titles in this Agreement are for convenience of reference only and shall not be construed so as to modify any provisions of this Agreement.

9. COUNTERPARTS; FACSIMILE TRANSMISSIONS. This Agreement may be executed in one or more counterparts and on separate counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. A counterpart of this Agreement or a signature page of this Agreement transmitted by facsimile machine or telecopier and showing a signature shall have the same binding effect

as an original bearing an original signature. No party may raise the use of a facsimile machine or telecopier or the fact that any signature was transmitted through the use of a facsimile or telecopier machine as a defense to the enforcement of this Agreement.

10. INCORPORATION BY REFERENCE. Lenders and Borrower hereby agree that all of the terms of the Loan Documents are incorporated in and made a part of this Agreement by this reference.

11. STATUTORY NOTICE. The following notice is given pursuant to Section 432.045 of the Missouri Revised Statutes; nothing contained in such notice will be deemed to limit or modify the terms of the Loan Documents or this Agreement:

ORAL AGREEMENTS OR COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT YOU BORROWER(S)) AND US (CREDITOR) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.

BORROWER AND LENDERS HEREBY AFFIRM THAT THERE IS NO UNWRITTEN ORAL CREDIT AGREEMENT BETWEEN BORROWER AND LENDERS WITH RESPECT TO THE SUBJECT MATTER OF THIS AGREEMENT.

[Next Page is Signature Page]

IN WITNESS WHEREOF, the parties have caused this Agreement to be dully executed by appropriate duly authorized officers as of May 14, 1997.

ALLIED HEALTHCARE PRODUCTS, INC.

LIFE SUPPORT PRODUCTS, INC.

By: /s/ Barry F. Baker
Name: Barry F. Baker
Title: VP Finance and CFO

By: /s/ Barry F. Baker
Name: Barry F. Baker
Title: VP Finance and CFO

B&F MEDICAL PRODUCTS, INC.

HOSPITAL SYSTEMS, INC.

By: /s/ Barry F. Baker
Name: Barry F. Baker
Title: VP Finance and CFO

By: /s/ Barry F. Baker
Name: Barry F. Baker
Title: VP Finance and CFO

BEAR MEDICAL SYSTEMS, INC.

BICORE MONITORING SYSTEMS, INC.

By: /s/ Barry F. Baker
Name: Barry F. Baker
Title: VP Finance and CFO

By: /s/ Barry F. Baker
Name: Barry F. Baker
Title: VP Finance and CFO

THE BOATMEN'S NATIONAL BANK OF ST.
LOUIS

DRESDNER BANK A.G. NEW YORK AND
GRAND CAYMAN BRANCHES

By: /s/ Robert W. Patton
Name: Robert W. Patton
Title: Vice President

By: /s/ Thomas J. Nadramia
Name: Thomas J. Nadramia
Title: Vice President

EXHIBIT 13

ADDITIONS TO EXHIBIT 13 OF THE LOAN AGREEMENT

None, if nothing listed below.

LOAN AND SECURITY AGREEMENT

among

ALLIED HEALTHCARE PRODUCTS, INC.,
B&F MEDICAL PRODUCTS, INC.,
BEAR MEDICAL SYSTEMS, INC.,
HOSPITAL SYSTEMS, INC.,
LIFE SUPPORT PRODUCTS, INC.,

and

BICORE MONITORING SYSTEMS, INC.,
as Borrowers, on the one hand,

and

FOOTHILL CAPITAL CORPORATION,
on the other hand

Dated as of August 7, 1997

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LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "Agreement"), is entered into as of August 7, 1997, among FOOTHILL CAPITAL CORPORATION, a California corporation ("Foothill"), with a place of business located at 11111 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025-3333, on the one hand, and ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation ("Parent"), B&F MEDICAL PRODUCTS, INC., a Delaware corporation ("B&F"), BEAR MEDICAL SYSTEMS, INC., a California corporation ("Bear"), HOSPITAL SYSTEMS, INC., a California corporation ("Hospital Systems"), LIFE SUPPORT PRODUCTS, INC., a California corporation ("Life Support"), BICORE MONITORING SYSTEMS, INC., a California corporation ("Bicore") each, with its chief executive office located at 1720 Sublette Avenue, St. Louis, Missouri 63110, on the other hand.

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Account Debtor" means any Person who is or who may become obligated under, with respect to, or on account of, an Account.

"Accounts" means all currently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to a Person arising out of the sale or lease of goods or the rendition of services by such Person, irrespective of whether earned by performance, and any and all credit insurance, guaranties, or security therefor.

"Advances" has the meaning set forth in SECTION 2.1(a).

"Affiliate" means, as applied to any Person, any other Person who directly or indirectly controls, is controlled by, is under common control with or is a director or officer of such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to vote 5% or more of the securities having ordinary voting power for the election of directors or the direct or indirect power to direct the management and policies of a Person.

"Agreement" has the meaning set forth in the preamble hereto.

"Authorized Person" means any officer or other employee of Borrower.

"Average Unused Portion of Maximum Revolving Amount" means, as of any date of determination, (a) the Maximum Revolving Amount, less (b) the sum of (i) the average Daily Balance of Advances that were outstanding during the immediately preceding month, plus (ii) the average Daily Balance of the undrawn Letters of Credit that were outstanding during the immediately preceding month.

"B&F" has the meaning set forth in the preamble to this Agreement.

"Bankruptcy Code" means the United States Bankruptcy Code (11 U.S.C. Section 101 et seq.), as amended, and any successor statute.

"Bear" has the meaning set forth in the preamble to this Agreement.

"Benefit Plan" means a "defined benefit plan" (as defined in SECTION 3(35) of ERISA) for which any Borrower, any Subsidiary of any Borrower, or any ERISA Affiliate has been an "employer" (as defined in SECTION 3(5) of ERISA) within the past six years.

"Bicore" has the meaning set forth in the preamble to this Agreement.

"Borrower" means any one of Parent, B&F, Bear, Hospital Systems, Life Support or Bicore.

"Borrowers' Books" means all of Borrowers' books and records including: ledgers; records indicating, summarizing, or evidencing Borrowers' properties or assets (including the Collateral) or liabilities; all information relating to Borrowers' business operations or financial condition; and all computer programs, disk or tape files, printouts, runs, or other computer prepared information.

"Borrowing Base" has the meaning set forth in SECTION 2.1(a).

"Business Day" means any day that is not a Saturday, Sunday, or other day on which national banks are authorized or required to close.

"Change of Control" shall be deemed to have occurred at such time as a "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 20% of the total voting power of all classes of stock then outstanding of any Borrower entitled to vote in the election of directors.

"Closing Date" means the date of the first to occur of the making of the initial Advance, the issuance of the initial Letter of Credit, or the funding of the Term Loans.

"Code" means the California Uniform Commercial Code.

"Collateral" means each Borrower's right, title, and interest in each of the following:

- (a) Accounts,
- (b) Borrowers' Books,
- (c) Equipment,
- (d) General Intangibles,
- (e) Inventory,
- (f) Investment Property,
- (g) Negotiable Collateral,
- (h) Real Property Collateral,

(i) any money, or other assets of Borrowers that now or hereafter come into the possession, custody, or control of Foothill, and

(j) the proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the Collateral of Borrowers, and any and all Accounts, Borrowers' Books, Equipment, General Intangibles, Inventory, Investment Property, Negotiable Collateral, Real Property, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Collateral Access Agreement" means a landlord waiver, mortgagee waiver, bailee letter, or acknowledgement agreement of any warehouseman, processor, lessor, consignee, or other Person in possession of, having a Lien upon, or having rights or interests in the Equipment or Inventory of any Borrower, in each case, in form and substance satisfactory to Foothill.

"Collections" means all cash, checks, notes, instruments, and other items of payment (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds).

"Compliance Certificate" means a certificate substantially in the form of Exhibit C-1 and delivered by the chief accounting officer of a Borrower to Foothill.

"Consolidated Current Assets" means, for any Person, as of any date of determination, the aggregate amount of all current assets of such Person that would, in accordance with GAAP, be classified on a balance sheet as current assets.

"Consolidated Current Liabilities" means, for any Person, as of any date of determination, the aggregate amount of all current liabilities of such Person that would, in accordance with GAAP, be classified on a balance sheet as current liabilities. For purposes of this definition, all Obligations outstanding under this Agreement shall be deemed to be current liabilities without regard to whether they would be deemed to be so under GAAP.

"Daily Balance" means the amount of an Obligation owed at the end of a given day.

"deems itself insecure" means that the Person deems itself insecure in accordance with the provisions of Section 1208 of the Code.

"Default" means an event, condition, or default that, with the giving of notice, the passage of time, or both, would be an Event of Default.

"Designated Account" means account number 10-0101-268682 of Borrowers maintained with Borrowers' Designated Account Bank, or such other deposit account of Borrowers (located within the United States) which has been designated, in writing and from time to time, by Borrowers to Foothill.

"Designated Account Bank" means NationsBank, N.A., whose office is located at St. Louis, Missouri, and whose ABA number is 081000032.

"Dilution" means, in each case based upon the experience of the immediately prior three months, the result of dividing the Dollar amount of (a) bad debt write-downs, discounts, advertising, returns, promotions, credits, or other dilution with respect to the Accounts of Borrowers, by (b) Borrowers' Collections (excluding extraordinary items) plus the Dollar amount of clause (a).

"Dilution Reserve" means, as of any date of determination, an amount sufficient to reduce Foothill's advance rate against Eligible Accounts by one percentage point for each percentage point by which Dilution is in excess of 5.00%.

"Disbursement Letter" means an instructional letter executed and delivered by Borrowers to Foothill regarding the extensions of credit to be made on the Closing Date, the form and substance of which shall be satisfactory to Foothill.

"Dollars or \$" means United States dollars.

"Domestic Eligible Accounts" means Eligible Accounts that are payable in Dollars with respect to Account Debtors that maintain their chief executive offices in the United States; however, Domestic Eligible Accounts shall not include: (a) Accounts with selling terms of more than 60 days, (b) Accounts that the Account Debtor has failed to pay within 120 days of invoice date (but in no event shall more than \$1,000,000 of domestic Accounts more than 90 days from invoice date be deemed eligible), and (c) Accounts owed by an Account Debtor or its Affiliates where 50% or more of all Accounts owed by that Account Debtor (or its Affiliates) are deemed ineligible under clause (b) above.

"Early Termination Premium" has the meaning set forth in SECTION 3.6.

"EBITDA" means, for any Person, the consolidated net income of such Person and its Subsidiaries (excluding extraordinary items) for the prior 12 month period (a) plus all interest expense, income tax expense, depreciation and amortization (including amortization of any goodwill or other intangibles) for the period, (b) plus or minus losses or gains attributable to any fixed asset sales in the period and (c) plus or minus any other non-cash charges which have been subtracted or added in calculating consolidated net income for the period. The calculation of EBITDA shall exclude amortization of capitalized leases.

"Eligible Accounts" means those Accounts created by a Borrower in the ordinary course of business, that arise out of such Borrower's sale of goods or rendition of services, that strictly comply with each and all of the representations and warranties respecting Accounts made by such Borrower to Foothill in the Loan Documents, and that are and at all times continue to be acceptable to Foothill in all respects; provided, however, that standards of eligibility may be fixed and revised from time to time by Foothill in Foothill's reasonable credit judgment. Eligible Accounts shall not include the following:

(a) Accounts with respect to which the Account Debtor is an employee, Affiliate, or agent of a Borrower;

(b) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, or other terms by reason of which the payment by the Account Debtor may be conditional;

(c) Intentionally Omitted;

(d) Accounts with respect to which the Account Debtor is either (i) the United States or any department, agency, or instrumentality of the United States (exclusive, however, of Accounts with respect to which the relevant Borrower has complied, to the satisfaction of Foothill, with the Assignment of Claims Act, 31 U.S.C. Section 3727), or (ii) any State of the United States (exclusive, however, of Accounts owed by any State that does not have a statutory counterpart to the Assignment of Claims Act);

(e) Accounts with respect to which the Account Debtor is a creditor of any Borrower, has or has asserted a right of setoff, has disputed its liability, or has made any claim with respect to the Account;

(f) Accounts with respect to an Account Debtor whose total obligations owing to the Borrowers exceed 10% of all Eligible Accounts of the Borrowers, to the extent of the obligations owing by such Account Debtor in excess of such percentage;

(g) Accounts with respect to which the Account Debtor is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business;

(h) Accounts the collection of which Foothill, in its reasonable credit judgment, believes to be doubtful by reason of the Account Debtor's financial condition;

(i) Accounts with respect to which the goods giving rise to such Account have not been shipped and billed to the Account Debtor, the services giving rise to such Account have not been performed and accepted by the Account Debtor, or the Account otherwise does not represent a final sale;

(j) Accounts with respect to which the Account Debtor is located in the states of New Jersey, Minnesota, or West Virginia (or any other state that requires a creditor to file a Business Activity Report or similar document in order to bring suit or otherwise enforce its remedies against such Account Debtor in the courts or through any judicial process of such state), unless the relevant Borrower has qualified to do business in New Jersey, Minnesota, West Virginia, or such other states, or has filed a Notice of Business Activities Report with the applicable division of taxation, the department of revenue, or with such other state offices, as appropriate, for the then-current year, or is exempt from such filing requirement; and

(k) Accounts that represent progress payments or other advance billings that are due prior to the completion of performance by a Borrower of the subject contract for goods or services.

"Eligible Inventory" means Inventory (net of cost price adjustments) consisting of first quality finished goods held for sale in the ordinary course of a Borrower's

business and raw materials for such finished goods, including component parts, that are located at or in-transit between such Borrower's premises identified on Schedule E-1, that strictly comply with each and all of the representations and warranties respecting Inventory made by such Borrower to Foothill in the Loan Documents, and that are and at all times continue to be acceptable to Foothill in all respects as reasonably determined by Foothill pursuant to its standard credit policy; provided, however, that standards of eligibility may be fixed and revised from time to time by Foothill in Foothill's reasonable credit judgment. In determining the amount to be so included, Inventory shall be valued on a first in first out basis at the lower of cost or market on a basis consistent with such Borrower's current and historical accounting practices. An item of Inventory shall not be included in Eligible Inventory if:

(a) it is not owned solely by such Borrower or such Borrower does not have good, valid, and marketable title thereto;

(b) it is not located at one of the locations set forth on Schedule E-1;

(c) it is not located on property owned or leased by a Borrower or in a contract warehouse, in each case, subject to a Collateral Access Agreement executed by the mortgagee, lessor, the warehouseman, or other third party, as the case may be, and segregated or otherwise separately identifiable from goods of others, if any, stored on the premises;

(d) it is not subject to a valid and perfected first priority security interest in favor of Foothill;

(e) it consists of goods returned or rejected by such Borrower's customers, goods held for return to vendor or goods in transit; and

(f) it is obsolete or slow moving, a restrictive or custom item, work-in-process, or constitutes spare parts, samples, field service inventory, floor reject inventory, packaging and shipping materials, supplies used or consumed in such Borrower's business, Inventory subject to a Lien in favor of any third Person, bill and hold goods, defective goods, "seconds," or Inventory acquired on consignment.

"Equipment" means all of a Person's present and hereafter acquired machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including motor vehicles and trailers), tools, parts, goods (other than consumer goods, farm products, or Inventory), wherever located, including all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing.

"ERISA" means the Employee Retirement Income Security Act of 1974, 29 U.S.C. Sections 1000 et seq., amendments thereto, successor statutes, and regulations or guidance promulgated thereunder.

"ERISA Affiliate" means (a) any corporation subject to ERISA whose employees are treated as employed by the same employer as the employees of a Borrower under IRC SECTION 414(b), (b) any trade or business subject to ERISA whose employees are treated as employed by the same employer as the employees of a Borrower under IRC SECTION 414(c), (c) solely for purposes of SECTION 302 of ERISA and Section 412 of the IRC, any organization subject to ERISA that is a member of an affiliated service group of which a Borrower is a member under IRC SECTION 414(m), or (d) solely for purposes of Section 302 of ERISA and Section 412 of the IRC, any party subject to ERISA that is a party to an arrangement with a Borrower and whose employees are aggregated with the employees of such Borrower under IRC Section 414(o).

"ERISA Event" means (a) a Reportable Event with respect to any Benefit Plan or Multiemployer Plan, (b) the withdrawal of a Borrower, any of its Subsidiaries or ERISA Affiliates from a Benefit Plan during a plan year in which it was a "substantial employer" (as defined in Section 4001(a)(2) of ERISA), (c) the providing of notice of intent to terminate a Benefit Plan in a distress termination (as described in Section 4041(c) of ERISA), (d) the institution by the PBGC of proceedings to terminate a Benefit Plan or Multiemployer Plan, (e) any event or condition (i) that provides a basis under Section 4042(a)(1), (2), or (3) of ERISA for the termination of, or the appointment of a trustee to administer, any Benefit Plan or Multiemployer Plan, or (ii) that may result in termination of a Multiemployer Plan pursuant to Section 4041A of ERISA, (f) the partial or complete withdrawal within the meaning of Sections 4203 and 4205 of ERISA, of a Borrower, any of its Subsidiaries or ERISA Affiliates from a Multiemployer Plan, or (g) providing any security to any Plan under Section 401(a)(29) of the IRC by a Borrower or its Subsidiaries or any of their ERISA Affiliates.

"Event of Default" has the meaning set forth in Section 8.

"Existing Lender" means NationsBank, N.A. as agent for a syndicated lending group, pursuant to a Loan Agreement dated October 13, 1995.

"FEIN" means Federal Employer Identification Number.

"Financing or Sale Event" means any of the following which is approved by Foothill in its reasonable discretion: (a) a sale of all or substantially all of the issued and outstanding stock of any Subsidiary of Parent in one or a series of related transactions or all or substantially all of the assets of any Subsidiary or division of Parent in one or a series of related transactions, (b) a private placement of debt or equity by Parent, (c) a public offering of debt or equity by Parent, or (d) a capital infusion in Parent or any Subsidiary.

"Foothill" has the meaning set forth in the preamble to this Agreement.

"Foothill Account" has the meaning set forth in Section 2.7.

"Foothill Expenses" means all: costs or expenses (including taxes, and insurance premiums) required to be paid by a Borrower under any of the Loan Documents that are paid or incurred by Foothill; fees or charges paid or incurred by Foothill in connection with Foothill's transactions with Borrowers, including, fees or charges for photocopying, notarization, couriers and messengers, telecommunication, public record searches (including tax lien, litigation, and UCC searches and including searches with the patent and trademark office, the copyright office, or the department of motor vehicles), filing, recording, publication, appraisal (including periodic Personal Property Collateral or Real Property Collateral appraisals), real estate surveys, real estate title policies and endorsements, and environmental audits; costs and expenses incurred by Foothill in the disbursement of funds to Borrowers (by wire transfer or otherwise); charges paid or incurred by Foothill resulting from the dishonor of checks; costs and expenses paid or incurred by Foothill to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Personal Property Collateral or the Real Property Collateral, or any portion thereof, irrespective of whether a sale is consummated; costs and expenses paid or incurred by Foothill in examining Borrowers' Books; costs and expenses of third party claims or any other suit paid or incurred by Foothill in enforcing or defending the Loan Documents or in connection with the transactions contemplated by the Loan Documents or Foothill's relationship with Borrowers or any guarantor; and Foothill's reasonable attorneys fees and expenses incurred in advising, structuring, drafting, reviewing, administering, amending, terminating, enforcing, defending, or concerning the Loan Documents, (including attorneys fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning Borrowers or any guarantor of the Obligations) irrespective of whether suit is brought.

"Foreign Eligible Accounts" means Eligible Accounts with respect to which the Account Debtor does not maintain its chief executive office in the United States where the Accounts are either (i) supported by an irrevocable letter of credit satisfactory to Foothill (as to form, substance, and issuer or United States confirming bank) that has been delivered to Foothill and is directly drawable by Foothill, or (ii) covered by credit insurance in form and amount, and by an insurer, satisfactory to Foothill; however, Foreign Eligible Accounts shall not include: (a) Accounts with selling terms of more than 90 days from invoice date, (b) Accounts more than 60 days from due date, not to exceed 150 days from invoice date, and (c) Accounts owed by an Account Debtor or its Affiliates where 50% or

more of all Accounts owed by that Account Debtor (or its Affiliates) are deemed ineligible under clause (b) above.

"Free Cash Flow" for a period means, for any Person, the total of such Person's: EBITDA minus interest expense, minus cash taxes paid, minus scheduled principal payments on debt for borrowed money, minus actual capital expenditures in each case as determined in accordance with GAAP, plus or minus changes in working capital.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"General Intangibles" means all of any Person's present and future general intangibles and other personal property (including contract rights, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringement claims, computer programs, information contained on computer disks or tapes, literature, reports, catalogs, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), other than goods, Accounts, and Negotiable Collateral.

"Governing Documents" means the certificate or articles of incorporation, by-laws, or other organizational or governing documents of any Person.

"Hazardous Materials" means (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity", (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources, (c) any flammable substances or explosives or any radioactive materials, and (d) asbestos in any form or electrical equipment that contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of 50 parts per million.

"Hospital Systems" has the meaning set forth in the preamble to this Agreement.

"Indebtedness" means: (a) all obligations of a Person for borrowed money, (b) all obligations of a Person evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations of a Person in respect of letters of credit, bankers acceptances, interest rate swaps, or other financial products, (c) all obligations

of a Person under capital leases, (d) all obligations or liabilities of others secured by a Lien on any property or asset of a Person, irrespective of whether such obligation or liability is assumed, and (e) any obligation of a Person guaranteeing or intended to guarantee (whether guaranteed, endorsed, co-made, discounted, or sold with recourse to such Person) any indebtedness, lease, dividend, letter of credit, or other obligation of any other Person.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the Bankruptcy Code or under any other bankruptcy or insolvency law, assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Intangible Assets" means, with respect to any Person, that portion of the book value of all of such Person's assets that would be treated as intangibles under GAAP.

"Intellectual Property Security Agreements" means those certain Intellectual Property Security Agreements between Foothill and each of Parent, B&F, Bear, Bicare, Hospital Systems and Life Support, all of even date herewith.

"Inventory" means all present and future inventory in which a Person has any interest, including goods held for sale or lease or to be furnished under a contract of service and all of such Person's present and future raw materials, work in process, finished goods, and packing and shipping materials, wherever located.

"Inventory Reserve" means a reserve established on October 1, 1997 in the amount of \$125,000, which shall increase by an additional \$125,000 on the first day of each month thereafter up to a maximum of \$2,000,000; provided, however, that upon the repayment of Term Loans A, B, and C in full, such Inventory Reserve shall immediately and automatically be increased to \$2,000,000.

"Investment Property" has the meaning set forth in Section 9115 of the Code.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Junior Notes" means those certain subordinated notes in the aggregate principal amount of \$5,000,000, in favor of Sam Fox, Donald Nickelson, Dennis Sheehan, and Woodbourne Partners, L.P., a Missouri limited partnership.

"L/C" has the meaning set forth in Section 2.2(a).

"L/C Guaranty" has the meaning set forth in Section 2.2(a).

"Letter of Credit" means an L/C or an L/C Guaranty, as the context requires.

"Lien" means any interest in property securing an obligation owed to, or a claim by, any Person other than the owner of the property, whether such interest shall be based on the common law, statute, or contract, whether such interest shall be recorded or perfected, and whether such interest shall be contingent upon the occurrence of some future event or events or the existence of some future circumstance or circumstances, including the lien or security interest arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, security agreement, adverse claim or charge, conditional sale or trust receipt, or from a lease, consignment, or bailment for security purposes and also including reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting Real Property.

"Life Support" has the meaning set forth in the preamble to this Agreement.

"Loan Account" has the meaning set forth in Section 2.10.

"Loan Documents" means this Agreement, the Intellectual Property Security Agreements, the Disbursement Letter, the Letters of Credit, the Lockbox Agreements, the Mortgages, any note or notes executed by any Borrower and payable to Foothill, and any other agreement entered into, now or in the future, in connection with this Agreement.

"Lockbox Account" shall mean a depository account established pursuant to one of the Lockbox Agreements.

"Lockbox Agreements" means those certain Lockbox Operating Procedural Agreements and those certain Depository Account Agreements, in form and substance satisfactory to Foothill, each of which is among a Borrower or Borrowers, Foothill, and one of the Lockbox Banks.

"Lockbox Banks" means NationsBank, N.A., or such other banks as may be agreed to by Foothill and Borrower from time to time.

"Lockboxes" has the meaning set forth in Section 2.7.

"Material Adverse Change" means (a) a material adverse change in the business, prospects, operations, results of operations, assets, liabilities or condition (financial

or otherwise) of a Borrower, (b) the material impairment of a Borrower's ability to perform its obligations under the Loan Documents to which it is a party or of Foothill to enforce the Obligations or realize upon the Collateral, (c) a material adverse effect on the value of the Collateral or the amount that Foothill would be likely to receive (after giving consideration to delays in payment and costs of enforcement) in the liquidation of such Collateral, or (d) a material impairment of the priority of Foothill's Liens with respect to the Collateral.

"Maximum Amount" means, as of any date of determination, the sum of (a) the Maximum Revolving Amount, (b) the then outstanding principal balance of the Term Loans.

"Maximum Revolving Amount" means \$25,000,000.

"Mortgages" means one or more mortgages, deeds of trust, or deeds to secure debt, executed by a Borrower in favor of Foothill, the form and substance of which shall be satisfactory to Foothill, that encumber the Real Property Collateral and the related improvements thereto.

"Multiemployer Plan" means a "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA) to which a Borrower, any of its Subsidiaries, or any ERISA Affiliate has contributed, or was obligated to contribute, within the past six years.

"Negotiable Collateral" means all of a Person's present and future letters of credit, notes, drafts, instruments, investment property, security entitlements, securities (including the shares of stock of Subsidiaries of such Person), documents, personal property leases (wherein such Person is the lessor), and chattel paper.

"Obligations" means all loans, Advances, debts, principal, interest (including any interest that, but for the provisions of the Bankruptcy Code, would have accrued), contingent reimbursement obligations under any outstanding Letters of Credit, premiums (including Early Termination Premiums), liabilities (including all amounts charged to Borrowers' Loan Account pursuant hereto), obligations, fees, charges, costs, or Foothill Expenses (including any fees or expenses that, but for the provisions of the Bankruptcy Code, would have accrued), lease payments, guaranties, covenants, and duties owing by a Borrower to Foothill of any kind and description (whether pursuant to or evidenced by the Loan Documents or pursuant to any other agreement between Foothill and any Borrower, and irrespective of whether for the payment of money), whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including any debt, liability, or obligation owing from a Borrower to others that Foothill may have obtained by assignment or otherwise, and further including all interest not paid when due and all Foothill Expenses that a Borrower is required to pay or reimburse by the Loan Documents, by law, or otherwise.

"Overadvance" has the meaning set forth in Section 2.5.

"Parent" has the meaning set forth in the preamble to this Agreement.

"Pay-Off Letter" means a letter, in form and substance reasonably satisfactory to Foothill, from Existing Lender respecting the amount necessary to repay in full all of the obligations of Borrowers owing to Existing Lender and obtain a termination or release of all of the Liens existing in favor of Existing Lender in and to the properties or assets of Borrowers.

"PBGC" means the Pension Benefit Guaranty Corporation as defined in Title IV of ERISA, or any successor thereto.

"Permitted Liens" means (a) Liens held by Foothill, (b) Liens for unpaid taxes that either (i) are not yet due and payable or (ii) are the subject of Permitted Protests, (c) Liens set forth on Schedule P-1, (d) the interests of lessors under operating leases and purchase money Liens of lessors under capital leases to the extent that the acquisition or lease of the underlying asset is permitted under Section 7.21 and so long as the Lien only attaches to the asset purchased or acquired and only secures the purchase price of the asset, (e) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business of a Borrower and not in connection with the borrowing of money, and which Liens either (i) are for sums not yet due and payable, (ii) are the subject of Permitted Protests, or (iii) removed by payment or bonded within 20 Business Days of any Borrower's obtaining notice thereof, (f) Liens arising from deposits made in connection with obtaining worker's compensation or other unemployment insurance, (g) Liens or deposits to secure performance of bids, tenders, or leases (to the extent permitted under this Agreement), incurred in the ordinary course of business of a Borrower and not in connection with the borrowing of money, (h) Liens arising by reason of security for surety or appeal bonds in the ordinary course of business of a Borrower, (i) Liens of or resulting from any judgment or award that would not have a Material Adverse Effect and as to which the time for the appeal or petition for rehearing of which has not yet expired, or in respect of which a Borrower is in good faith prosecuting an appeal or proceeding for a review, and in respect of which a stay of execution pending such appeal or proceeding for review has been secured, (j) Liens with respect to the Real Property Collateral that are exceptions to the commitments for title insurance issued in connection with the Mortgages, as accepted by Foothill, and (k) with respect to any Real Property that is not part of the Real Property Collateral, easements, rights of way, zoning and similar covenants and restrictions, and similar encumbrances that customarily exist on properties of Persons engaged in similar activities and similarly situated and that in any event do not materially interfere with or impair the use or operation of the Collateral by any Borrower or the value of Foothill's Lien thereon or therein, or materially interfere with the ordinary conduct of the business of a Borrower.

"Permitted Protest" means the right of a Borrower to protest any Lien (other than any such Lien that secures the Obligations), tax (other than payroll taxes or taxes that are the subject of a United States federal tax lien), or rental payment, provided that (a) a reserve with respect to such obligation is established on the books of such Borrower in an amount that is reasonably satisfactory to Foothill, (b) any such protest is instituted and diligently prosecuted by such Borrower in good faith, and (c) Foothill is satisfied that, while any such protest is pending, there will be no impairment of the enforceability, validity, or priority of any of the Liens of Foothill in and to the Collateral.

"Person" means and includes natural persons, corporations, limited liability companies, limited partnerships, general partnerships, limited liability partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Personal Property Collateral" means all Collateral other than the Real Property Collateral.

"Plan" means any employee benefit plan, program, or arrangement maintained or contributed to by a Borrower or with respect to which it may incur liability.

"Real Property" means any estates or interests in real property now owned or hereafter acquired by a Borrower.

"Real Property Collateral" means the parcel or parcels of real property and the related improvements thereto identified on Schedule R-1, and any Real Property hereafter acquired by a Borrower.

"Reference Rate" means the variable rate of interest, per annum, most recently announced by Norwest Bank Minnesota, National Association, or any successor thereto, as its "base rate," irrespective of whether such announced rate is the best rate available from such financial institution.

"Renewal Date" has the meaning set forth in Section 3.4.

"Reportable Event" means any of the events described in Section 4043(c) of ERISA or the regulations thereunder other than a Reportable Event as to which the provision of 30 days notice to the PBGC is waived under applicable regulations.

"Retiree Health Plan" means an "employee welfare benefit plan" within the meaning of Section 3(1) of ERISA that provides benefits to individuals after termination of their employment, other than as required by Section 601 of ERISA.

"Senior Debt" means the Foothill Obligations (other than L/Cs and L/C Guaranties).

"Solvent" means, with respect to any Person on a particular date, that on such date (a) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair salable value of the properties and assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.

"Subsidiary" of a Person means a corporation, partnership, limited liability company, or other entity in which that Person directly or indirectly owns or controls the shares of stock or other ownership interests having ordinary voting power to elect a majority of the board of directors (or appoint other comparable managers) of such corporation, partnership, limited liability company, or other entity.

"Tangible Net Worth" means, as of any date of determination, the difference of (a) a Person's total stockholder's equity, minus (b) the sum of: (i) all Intangible Assets of such Person, and (ii) all amounts due to such Person from Affiliates.

"Term Loans" means Term Loan A, Term Loan B and Term Loan C.

"Term Loan A" has the meaning set forth in Section 2.3.

"Term Loan B" has the meaning set forth in Section 2.3.

"Term Loan C" has the meaning set forth in Section 2.3.

"Voidable Transfer" has the meaning set forth in Section 15.8.

"Warrant" means that certain Warrant, dated as of the Closing Date, for the purchase by Foothill of 50,000 shares of Parent's Common Stock.

"Working Capital" means the result of subtracting Consolidated Current Liabilities from Consolidated Current Assets.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrower" is used in respect of a financial covenant or a related definition, it shall be understood to mean Borrowers on a consolidated basis unless the context clearly requires otherwise.

1.3 Code. Any terms used in this Agreement that are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein.

1.4 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. An Event of Default shall "continue" or be "continuing" until such Event of Default has been waived in writing by Foothill. Section, subsection, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. Any reference in this Agreement or in the Loan Documents to this Agreement or any of the Loan Documents shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable.

1.5 Schedules and Exhibits. All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. LOAN AND TERMS OF PAYMENT.

2.1 Revolving Advances.

(a) Subject to the terms and conditions of this Agreement, Foothill agrees to make advances ("Advances") to Borrowers in an amount outstanding not to exceed at any one time the lesser of (i) the Maximum Revolving Amount less the outstanding balance of all undrawn or unreimbursed Letters of Credit, or (ii) the Borrowing Base less the aggregate amount of all undrawn or unreimbursed Letters of Credit. For purposes of this Agreement, "Borrowing Base," as of any date of determination, shall mean the result of:

(w) the lesser of (i) 85% of Domestic Eligible Accounts, less the amount, if any, of the Dilution Reserve; provided, however, that Advances based upon Domestic Eligible Accounts and Foreign Eligible Accounts, in the aggregate, shall not exceed an amount equal to Borrower's Collections with

respect to Accounts for the immediately preceding 75 day period through November 30, 1997 and 60 day period thereafter, plus

(x) the lesser of (i) (a) 85% of Foreign Eligible Accounts supported by letters of credit, plus (b) 85% of Foreign Eligible Accounts supported by credit insurance (net of the aggregate amount of all applicable deductibles), and (ii) \$8,000,000, plus

(y) the lesser of (i) \$10,000,000, and (ii) 45% of the value of Eligible Inventory, minus the Inventory Reserve, minus

(z) the aggregate amount of reserves, if any, established by Foothill under Sections 2.1(b), 6.15 and 10.

(b) Anything to the contrary in Section 2.1(a) above notwithstanding, Foothill may create reserves against or reduce its advance rates based upon Eligible Accounts or Eligible Inventory without declaring an Event of Default if it reasonably determines that there has occurred a Material Adverse Change.

(c) Amounts borrowed pursuant to this Section 2.1 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

2.2 Letters of Credit.

(a) Subject to the terms and conditions of this Agreement, Foothill agrees to issue letters of credit for the account of a Borrower (each, an "L/C") or to issue guarantees of payment (each such guaranty, an "L/C Guaranty") with respect to letters of credit issued by an issuing bank for the account of a Borrower. Foothill shall have no obligation to issue a Letter of Credit if any of the following would result:

(i) 100% of the aggregate amount of all other types of undrawn and unreimbursed Letters of Credit, would exceed the Borrowing Base less the amount of outstanding Advances less the reserves established under Section 2.1(b); or

(ii) the aggregate amount of all undrawn or unreimbursed Letters of Credit (including Inventory Letters of Credit) would exceed the lower of: (x) the Maximum Revolving Amount less the amount of outstanding Advances less reserves established under Section 2.1(b); or (y) \$3,000,000.

Each Borrower expressly understands and agrees that Foothill shall have no obligation to arrange for the issuance by issuing banks of the letters of credit that are to be the subject of

L/C Guarantees. Each Borrower and Foothill acknowledge and agree that certain of the letters of credit that are to be the subject of L/C Guarantees may be outstanding on the Closing Date. Each Letter of Credit shall have an expiry date no later than 60 days prior to the date on which this Agreement is scheduled to terminate under Section 3.4 (without regard to any potential renewal term) and all such Letters of Credit shall be in form and substance acceptable to Foothill in its sole discretion. If Foothill is obligated to advance funds under a Letter of Credit, Borrowers immediately shall reimburse such amount to Foothill and, in the absence of such reimbursement, the amount so advanced immediately and automatically shall be deemed to be an Advance hereunder and, thereafter, shall bear interest at the rate then applicable to Advances under Section 2.6.

(b) Each Borrower hereby agrees to indemnify, save, defend, and hold Foothill harmless from any loss, cost, expense, or liability, including payments made by Foothill, expenses, and reasonable attorneys fees incurred by Foothill arising out of or in connection with any Letter of Credit. Each Borrower agrees to be bound by the issuing bank's regulations and interpretations of any Letters of Credit guaranteed by Foothill and opened to or for such Borrower's account or by Foothill's interpretations of any L/C issued by Foothill to or for such Borrower's account, even though this interpretation may be different from such Borrower's own, and Borrowers understand and agree that Foothill shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following any Borrower's instructions or those contained in the Letter of Credit or any modifications, amendments, or supplements thereto. Each Borrower understands that the L/C Guarantees may require Foothill to indemnify the issuing bank for certain costs or liabilities arising out of claims by a Borrower against such issuing bank. Each Borrower hereby agrees to indemnify, save, defend, and hold Foothill harmless with respect to any loss, cost, expense (including reasonable attorneys fees), or liability incurred by Foothill under any L/C Guaranty as a result of Foothill's indemnification of any such issuing bank.

(c) Each Borrower hereby authorizes and directs any bank that issues a letter of credit guaranteed by Foothill to deliver to Foothill all instruments, documents, and other writings and property received by the issuing bank pursuant to such letter of credit, and to accept and rely upon Foothill's instructions and agreements with respect to all matters arising in connection with such letter of credit and the related application. A Borrower may or may not be the "applicant" or "account party" with respect to such letter of credit.

(d) Any and all charges, commissions, fees, and costs incurred by Foothill relating to the letters of credit guaranteed by Foothill shall be considered Foothill Expenses for purposes of this Agreement and immediately shall be reimbursable by Borrowers to Foothill.

(e) Immediately upon the termination of this Agreement, Borrowers agree to either (i) provide cash collateral to be held by Foothill in an amount equal to 102%

of the maximum amount of Foothill's obligations under outstanding Letters of Credit, or (ii) cause to be delivered to Foothill releases of all of Foothill's obligations under outstanding Letters of Credit. At Foothill's discretion, any proceeds of Collateral received by Foothill after the occurrence and during the continuation of an Event of Default may be held as the cash collateral required by this Section 2.2(e).

(f) If by reason of (i) any change in any applicable law, treaty, rule, or regulation or any change in the interpretation or application by any governmental authority of any such applicable law, treaty, rule, or regulation, or (ii) compliance by the issuing bank or Foothill with any direction, request, or requirement (irrespective of whether having the force of law) of any governmental authority or monetary authority including, without limitation, Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect (and any successor thereto):

(A) any reserve, deposit, or similar requirement is or shall be imposed or modified in respect of any Letters of Credit issued hereunder, or

(B) there shall be imposed on the issuing bank or Foothill any other condition regarding any letter of credit, or Letter of Credit, as applicable, issued pursuant hereto;

and the result of the foregoing is to increase, directly or indirectly, the cost to the issuing bank or Foothill of issuing, making, guaranteeing, or maintaining any letter of credit, or Letter of Credit, as applicable, or to reduce the amount receivable in respect thereof by such issuing bank or Foothill, then, and in any such case, Foothill may, at any time within a reasonable period after the additional cost is incurred or the amount received is reduced, notify Borrowers, and Borrowers shall pay on demand such amounts as the issuing bank or Foothill may specify to be necessary to compensate the issuing bank or Foothill for such additional cost or reduced receipt, together with interest on such amount from the date of such demand until payment in full thereof at the rate set forth in Section 2.6(a)(i) or (c)(i), as applicable. The determination by the issuing bank or Foothill, as the case may be, of any amount due pursuant to this Section 2.2(f), as set forth in a certificate setting forth the calculation thereof in reasonable detail, shall, in the absence of manifest or demonstrable error, be final and conclusive and binding on all of the parties hereto.

2.3 Term Loans. Foothill agrees to provide Borrowers with Term Loans in the amounts of \$10,000,000 ("Term Loan A"), \$7,000,000 ("Term Loan B"), and \$4,000,000 ("Term Loan C"), respectively. Principal payments on Term Loan A and B shall be made on the first day of October, 1997 and shall continue on the first day of each subsequent month until paid in full. For Term Loan A, during the first 24 months, each principal payment shall be in the amount of \$104,166.66; for the next 11 months, each principal payment shall be in the amount of \$541,666.66, and on the third anniversary of the Closing Date, the outstanding balance of Term Loan A shall be paid in full. For Term Loan

B, for the first 12 months each principal payment shall be in the amount of \$229,166.66, and for the next 12 months each principal payment shall be in the amount of \$354,166.66. In addition, Borrowers shall prepay Term Loan B in an amount equal to 25% of the amount of Borrowers' Free Cash Flow for the fiscal years ending June 30, 1998 and June 30, 1999, such amount to be paid within 20 days of delivery to Foothill of Borrower's audited financial statements for each of such fiscal years and shall be applied to regularly scheduled payments of principal in the inverse order of their maturity. Term Loan C shall be interest only with principal payable in full on the earlier of: (a) six months from the Closing Date, or (b) from proceeds of a Financing or Sale Event; provided, however, Borrowers' shall have the option to extend the maturity of Term Loan C for an additional 30 days as long as no Event of Default has occurred and is continuing and Borrowers' pay Foothill an extension fee in the amount of \$40,000.

Payments of accrued interest under the Term Loans shall be made on the first day of each month commencing on the first day of September, 1997. The outstanding principal balance and all accrued and unpaid interest under each of the Term Loans shall be due and payable upon the earliest to occur of: (a) the acceleration of the Obligations by Foothill following an Event of Default; (b) the Maturity Date; and (c) the maturity date for each such Term Loan. Upon completion of a Financing or Sale Event, the proceeds therefrom shall be used first to repay in full Term Loan C, second to repay in full the Junior Notes (provided that Foothill has not accelerated the Obligations), third to repay in full Term Loan B and fourth to repay in full Term Loan A. Borrower shall have the right to prepay Term Loans B and C, in whole or in part, at any time, without penalty or premium. Borrower shall have the right to prepay Term Loan A, in whole or in part, from the proceeds of asset sales, without penalty or premium. All such prepaid amounts to be applied to the installments due on Term Loans in the inverse order of their maturity. All amounts outstanding under the Term Loans shall constitute Obligations.

2.4 Intentionally Omitted.

2.5 Overadvances. If, at any time or for any reason, the amount of Obligations owed by Borrowers to Foothill pursuant to Sections 2.1 or 2.2 is greater than either the Dollar or percentage limitations set forth in Sections 2.1 or 2.2 (an "Overadvance"), Borrowers immediately shall pay to Foothill, in cash, the amount of such excess to be used by Foothill first, to repay Advances outstanding under Section 2.1 and, thereafter, to be held by Foothill as cash collateral to secure Borrower's obligation to repay Foothill for all amounts paid pursuant to Letters of Credit; provided, however, that with respect to any Overadvance caused by Foothill's charging fees, costs, expenses, or interest to the Loan Account, the Borrowers shall have two Business Days to make such payments.

2.6 Interest and Letter of Credit Fees: Rates, Payments, and Calculations.

(a) Interest Rate. Except as provided in clause (b) below, (i) all Obligations (except for undrawn Letters of Credit and the Term Loans B and C) shall bear interest at a per annum rate of 0.50 percentage point above the Reference Rate, and (ii) Term Loans B and C shall bear interest at a per annum rate of 14%.

(b) Letter of Credit Fee. Borrowers shall pay Foothill a fee (in addition to the charges, commissions, fees, and costs set forth in Section 2.2(d)) equal to 1.00% per annum times the aggregate undrawn amount of all outstanding Letters of Credit.

(c) Default Rate. Upon the occurrence and during the continuation of an Event of Default, (i) all Obligations (except for undrawn Letters of Credit and Term Loans B and C) shall bear interest at a per annum rate equal to 4.50 percentage point above the Reference Rate, and (ii) Term Loans B and C shall bear interest at a per annum rate equal to 18%, (iii) the Letter of Credit fee provided in Section 2.6(b) shall be increased to 5.00% per annum times the aggregate undrawn amount of all outstanding Letters of Credit.

(d) Minimum Interest. In no event shall the rate of interest chargeable hereunder for any day for Advances or Term Loan A be less than 7.00% per annum. To the extent that interest accrued hereunder at the rate set forth herein would be less than the foregoing minimum daily rate, the interest rate chargeable hereunder for such day automatically shall be deemed increased to the minimum rate.

(e) Payments. Interest and Letter of Credit fees payable hereunder shall be due and payable, in arrears, on the first day of each month during the term hereof. Each Borrower hereby authorizes Foothill, at its option, without prior notice to such Borrower, to charge such interest and Letter of Credit fees, all Foothill Expenses (as and when incurred), the charges, commissions, fees, and costs provided for in Section 2.2(d) (as and when accrued or incurred), the fees and charges provided for in Section 2.11 (as and when accrued or incurred), and all installments or other payments due under the Term Loans, or any Loan Document to Borrowers' Loan Account, which amounts thereafter shall accrue interest at the rate then applicable to Advances hereunder. Any interest not paid when due shall be compounded and shall thereafter accrue interest at the rate then applicable to Advances hereunder.

(f) Computation. The Reference Rate as of the date of this Agreement is 8.50% per annum. In the event the Reference Rate is changed from time to time hereafter, the applicable rate of interest hereunder automatically and immediately shall be increased or decreased by an amount equal to such change in the Reference Rate. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a 360 day year for the actual number of days elapsed.

(g) Intent to Limit Charges to Maximum Lawful Rate. In no event shall the interest rate or rates payable under this Agreement, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrowers and Foothill, in executing and delivering this Agreement, intend legally to agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, ipso facto as of the date of this Agreement, Borrowers are and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrowers in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.7 Collection of Accounts. Borrowers shall at all times maintain lockboxes (the "Lockboxes") and, immediately after the Closing Date, shall instruct all Account Debtors with respect to the Accounts, General Intangibles, and Negotiable Collateral of Borrowers to remit all Collections in respect thereof to such Lockboxes. Borrowers, Foothill, and the Lockbox Banks shall enter into the Lockbox Agreements, which among other things shall provide for the opening of a Lockbox Account for the deposit of Collections at a Lockbox Bank. Each Borrower agrees that all Collections and other amounts received by such Borrower from any Account Debtor or any other source immediately upon receipt shall be deposited into a Lockbox Account. No Lockbox Agreement or arrangement contemplated thereby shall be modified by a Borrower without the prior written consent of Foothill. Upon the terms and subject to the conditions set forth in the Lockbox Agreements, all amounts received in each Lockbox Account shall be wired each Business Day into an account (the "Foothill Account") maintained by Foothill at a depository selected by Foothill.

2.8 Crediting Payments; Application of Collections. The receipt of any Collections by Foothill (whether from transfers to Foothill by the Lockbox Banks pursuant to the Lockbox Agreements or otherwise) immediately shall be applied provisionally to reduce the Obligations outstanding under Section 2.1, but shall not be considered a payment on account unless such Collection item is a wire transfer of immediately available federal funds and is made to the Foothill Account or unless and until such Collection item is honored when presented for payment. From and after the Closing Date, Foothill shall be entitled to charge Borrowers for one Business Day of 'clearance' or 'float' at the rate set forth in Section 2.6(a)(i) or Section 2.6(c)(i), as applicable, on all Collections that are received by Foothill (regardless of whether forwarded by the Lockbox Banks to Foothill, whether provisionally applied to reduce the Obligations under Section 2.1, or otherwise). This across-the-board one Business Day clearance or float charge on all Collections is acknowledged by the parties to constitute an integral aspect of the pricing of Foothill's financing of Borrowers, and shall apply irrespective of the characterization of whether receipts are owned by a Borrower or Foothill, and whether or not there are any outstanding Advances, the effect of such clearance or float charge being the equivalent of charging one Business Day of interest

on such Collections. Should any Collection item not be honored when presented for payment, then Borrowers shall be deemed not to have made such payment, and interest shall be recalculated accordingly. Anything to the contrary contained herein notwithstanding, any Collection item shall be deemed received by Foothill only if it is received into the Foothill Account on a Business Day on or before 11:00 a.m. California time. If any Collection item is received into the Foothill Account on a non-Business Day or after 11:00 a.m. California time on a Business Day, it shall be deemed to have been received by Foothill as of the opening of business on the immediately following Business Day.

2.9 Designated Account. Foothill is authorized to make the Advances, the Letters of Credit and the Term Loans under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Person, or without instructions if pursuant to Section 2.6(e). Borrowers agree to establish and maintain a single Designated Account with the Designated Account Bank for the purpose of receiving the proceeds of the Advances requested by Borrowers and made by Foothill hereunder. Unless otherwise agreed by Foothill and Borrowers, any Advance requested by Borrowers and made by Foothill hereunder shall be made to the Designated Account.

2.10 Maintenance of Loan Account; Statements of Obligations. At the request of Borrowers, to facilitate and expedite the administration and accounting processes and procedures of their borrowings under this Agreement, Foothill has agreed, in lieu of maintaining separate loan accounts on Foothill's books in the name of each of the Borrowers, that Foothill shall maintain a single account on its books in the names of all of the Borrowers (the "Loan Account"). All Advances and the Term Loans made by Foothill to Borrowers or for Borrower's account, including accrued interest, Foothill Expenses, and any other payment Obligations of Borrowers shall be made jointly and severally to the Borrowers and shall be charged to the Loan Account. In accordance with Section 2.8, the Loan Account will be credited with all payments received by Foothill from any Borrower or for any Borrowers' account, including all amounts received in the Foothill Account from any Lockbox Bank. Foothill shall render one statement regarding the Loan Account to Parent on behalf of Borrowers, including principal, interest, fees, and including an itemization of all charges and expenses constituting Foothill Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrowers and Foothill unless, within 90 days after receipt thereof by Borrowers, Borrowers shall deliver to Foothill written objection thereto describing the error or errors contained in any such statements. Each Borrower hereby expressly agrees and acknowledges that Foothill shall have no obligation to account separately to such Borrower.

2.11 Fees. Borrowers shall pay to Foothill the following fees:

(a) Commitment Fee. A commitment fee in the amount of \$415,000 of which \$157,500 has already been paid, and \$257,500 of which shall be payable on the Closing Date;

(b) Anniversary Fee. On the first and second anniversaries of the Closing Date, an anniversary fee in an amount equal to 0.25% of the Maximum Revolving Amount plus the outstanding balance of the Term Loans, which fee is fully earned on each anniversary.

(c) Term Loan C Fee. A fee in the amount of \$120,000 of which \$60,000 has already been paid and \$60,000 shall be payable on the Closing Date.

(d) Unused Line Fee. On the first day of each month during the term of this Agreement, an unused line fee in an amount equal to 0.25% per annum times the Average Unused Portion of the Maximum Revolving Amount;

(e) Financial Examination, Documentation, and Appraisal Fees. Foothill's customary fee of \$650 per day per examiner, plus out-of-pocket expenses for each financial analysis and examination (i.e., audits) of Borrowers performed by personnel employed by Foothill; Foothill's customary appraisal fee of \$1,500 per day per appraiser, plus out-of-pocket expenses for each appraisal of the Collateral performed by personnel employed by Foothill; and, the actual charges paid or incurred by Foothill if it elects to employ the services of one or more third Persons to perform such financial analyses and examinations (i.e., audits) of Borrowers or to appraise the Collateral; provided, however, that prior to the occurrence and continuation of an Event of Default or Foothill deeming itself insecure, Borrowers shall not be obligated to pay for more than four audits and [one] appraisal in any 12 month period; and

(f) Servicing Fee. On the first day of each month during the term of this Agreement, and thereafter so long as any Obligations are outstanding, a servicing fee in an amount equal to \$6,000.

3. CONDITIONS; TERM OF AGREEMENT.

3.1 Conditions Precedent to the Initial Advance, the Initial Letter of Credit, and the Term Loans. The obligation of Foothill to make the initial Advance, to issue the initial Letter of Credit, or to make the Term Loans, is subject to the fulfillment, to the satisfaction of Foothill and its counsel, of each of the following conditions on or before the Closing Date:

(a) the Closing Date shall occur on or before August 14, 1997;

(b) Foothill shall have received searches regarding Borrowers;

(c) Foothill shall have received each of the following documents, duly executed, and each such document shall be in full force and effect:

- a. the Lockbox Agreements;
- b. the Disbursement Letter;
- c. the Pay-Off Letter, together with UCC termination statements and other documentation evidencing the termination by Existing Lender of its Liens in and to the properties and assets of Borrowers;
- d. the Mortgages;
- e. the Warrant; and
- f. a subordination agreement with the holders of

the Junior Notes;

(d) Foothill shall have received a certificate from the Secretary of each Borrower attesting to the resolutions of each Borrower's Board of Directors authorizing its execution, delivery, and performance of this Agreement and the other Loan Documents to which such Borrower is a party and authorizing specific officers of such Borrower to execute the same;

(e) Foothill shall have received copies of each Borrower's Governing Documents, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of such Borrower;

(f) Foothill shall have received a certificate of status with respect to each Borrower, dated within 10 days of the Closing Date, such certificate to be issued by the appropriate officer of the jurisdiction of organization of such Borrower, which certificate shall indicate that such Borrower is in good standing in such jurisdiction;

(g) Foothill shall have received certificates of status with respect to each Borrower, each dated within 15 days of the Closing Date, such certificates to be issued by the appropriate officer of the jurisdictions in which its failure to be duly qualified or licensed would constitute a Material Adverse Change, which certificates shall indicate that such Borrower is in good standing in such jurisdictions;

(h) Foothill shall have received a certificate of insurance, together with the endorsements thereto, as are required by Section 6.10, the form and substance of which shall be satisfactory to Foothill and its counsel;

(i) Borrower shall have received not less than \$5,000,000 in cash from an equity investment or the issuance of the Junior Notes;

(j) Foothill shall have received such Collateral Access Agreements from lessors, warehousemen, bailees, and other third persons as Foothill may require;

(k) Foothill shall have received an opinion of Borrowers' counsel in form and substance satisfactory to Foothill in its sole discretion;

(l) Foothill shall have received (i) appraisals of the Real Property Collateral and appraisals of the Equipment of Borrowers, in each case satisfactory to Foothill, and (ii) mortgagee title insurance policies (or marked commitments to issue the same) for the Real Property Collateral issued by a title insurance company satisfactory to Foothill (each a "Mortgage Policy" and, collectively, the "Mortgage Policies") in amounts satisfactory to Foothill assuring Foothill that the Mortgages on such Real Property Collateral are valid and enforceable first priority mortgage Liens on such Real Property Collateral free and clear of all defects and encumbrances except Permitted Liens, and the Mortgage Policies shall otherwise be in form and substance reasonably satisfactory to Foothill;

(m) Foothill shall have received a phase-I environmental report and a real estate survey shall have been completed with respect to the Real Property Collateral and copies thereof delivered to Foothill; the environmental consultants and surveyors retained for such reports or surveys, the scope of the reports or surveys, and the results thereof shall be acceptable to Foothill in its sole discretion;

(n) Foothill shall have received satisfactory evidence that all tax returns required to be filed by Borrowers have been timely filed and all taxes upon each Borrower or its properties, assets, income, and franchises (including real property taxes and payroll taxes) have been paid prior to delinquency, except such taxes that are the subject of a Permitted Protest; and

(o) all other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed, or recorded and shall be in form and substance satisfactory to Foothill and its counsel.

3.2 Conditions Precedent to all Advances, all Letters of Credit and the Term Loans. The following shall be conditions precedent to all Advances, all Letters of Credit and the Term Loans hereunder:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all material respects on and as of the date of such extension of credit, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) no Default or Event of Default shall have occurred and be continuing on the date of such extension of credit, nor shall either result from the making thereof; and

(c) no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the extending of such credit shall have been issued and remain in force by any governmental authority against any Borrower, Foothill, or any of their Affiliates.

3.3 Condition Subsequent. As a condition subsequent to initial closing hereunder, Borrowers shall perform or cause to be performed the following (the failure by Borrowers to so perform or cause to be performed constituting an Event of Default):

(a) within 30 days of the Closing Date, deliver to Foothill the certified copies of the policies of insurance, together with the endorsements thereto, as are required by Section 6.10, the form and substance of which shall be satisfactory to Foothill and its counsel.

3.4 Term. This Agreement shall become effective upon the execution and delivery hereof by Borrowers and Foothill and shall continue in full force and effect for a term ending on the date (the "Maturity Date") that is three years from the Closing Date, unless sooner terminated pursuant to the terms hereof. The foregoing notwithstanding, Foothill shall have the right to terminate its obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default.

3.5 Effect of Termination. On the date of termination of this Agreement, all Obligations (including contingent reimbursement obligations of Borrowers with respect to any outstanding Letters of Credit) immediately shall become due and payable without notice or demand. No termination of this Agreement, however, shall relieve or discharge Borrowers of Borrowers' duties, Obligations, or covenants hereunder, and Foothill's continuing security interests in the Collateral shall remain in effect until all Obligations have been fully and finally discharged and Foothill's obligation to provide additional credit hereunder is terminated.

3.6 Early Termination by Borrowers. The provisions of Section 3.4 that allow termination of this Agreement by Borrowers only on the Maturity Date notwithstanding, Borrowers have the option, at any time upon 90 days prior written notice to Foothill, to terminate this Agreement by paying to Foothill, in cash, the Obligations (including an amount equal to 102% of the undrawn amount of the Letters of Credit), in full, together with a premium (the "Early Termination Premium") equal to the following percentage of the Maximum Revolving Amount plus the outstanding balance of Term Loan A (subject to the provisions of Section 2.3): (a) three percent if such prepayment occurs within the first 12 months of the Closing Date; (b) one percent if such prepayment occurs during

months 13 through 24 after the Closing Date, and (c) one-half percent if such prepayment occurs after the 24th month after the Closing Date. Notwithstanding the preceding sentence, no Early Termination Premium shall be charged if, after 18 months from the Closing Date, Borrowers obtain financing to repay the Obligations from Norwest Bank, N.A. or any of its subsidiaries.

3.7 Termination Upon Event of Default. If Foothill terminates this Agreement upon the occurrence of an Event of Default, in view of the impracticability and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Foothill's lost profits as a result thereof, Borrowers shall pay to Foothill upon the effective date of such termination, a premium in an amount equal to the Early Termination Premium. The Early Termination Premium shall be presumed to be the amount of damages sustained by Foothill as the result of the early termination and Borrowers agree that it is reasonable under the circumstances currently existing. The Early Termination Premium provided for in this Section 3.7 shall be deemed included in the Obligations.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Each Borrower hereby grants to Foothill a continuing security interest in all of such Borrower's currently existing and hereafter acquired or arising Personal Property Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by such Borrower of each of its covenants and duties under the Loan Documents. Foothill's security interests in the Personal Property Collateral shall attach to all Personal Property Collateral without further act on the part of Foothill or Borrowers. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, except for the sale of Inventory to buyers in the ordinary course of business, no Borrower has any authority, express or implied, to dispose of any item or portion of the Personal Property Collateral or the Real Property Collateral.

4.2 Negotiable Collateral. In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, Borrowers, immediately upon the request of Foothill, shall endorse and deliver physical possession of such Negotiable Collateral to Foothill.

4.3 Collection of Accounts, General Intangibles, and Negotiable Collateral. At any time, Foothill or Foothill's designee may (a) notify customers or Account Debtors of any Borrower that the Accounts, General Intangibles, or Negotiable Collateral of such Borrower have been assigned to Foothill or that Foothill has a security interest therein, and (b) after an Event of Default, collect the Accounts, General Intangibles, and Negotiable Collateral of such Borrower directly and charge the collection costs and expenses to the Loan Account. Each Borrower agrees that it will hold in trust for Foothill, as Foothill's trustee,

any Collections that it receives and immediately will deliver said Collections to Foothill in their original form as received by Borrower.

4.4 Delivery of Additional Documentation Required. At any time upon the request of Foothill, Borrowers shall execute and deliver to Foothill all financing statements, continuation financing statements, fixture filings, security agreements, pledges, assignments, endorsements of certificates of title, applications for title, affidavits, reports, notices, schedules of accounts, letters of authority, and all other documents that Foothill reasonably may request, in form satisfactory to Foothill, to perfect and continue perfected Foothill's security interests in the Collateral, and in order to fully consummate all of the transactions contemplated hereby and under the other the Loan Documents.

4.5 Power of Attorney. Each Borrower hereby irrevocably makes, constitutes, and appoints Foothill (and any of Foothill's officers, employees, or agents designated by Foothill) as such Borrower's true and lawful attorney, with power to (a) if such Borrower refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of such Borrower on any of the documents described in Section 4.4, (b) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure, sign such Borrower's name on any invoice or bill of lading relating to any Account of such Borrower, drafts against Account Debtors, schedules and assignments of Accounts of such Borrower, verifications of Accounts of such Borrower, and notices to Account Debtors, (c) send requests for verification of Accounts of such Borrower, (d) endorse such Borrower's name on any Collection item that may come into Foothill's possession, (e) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure, notify the post office authorities to change the address for delivery of such Borrower's mail to an address designated by Foothill, to receive and open all mail addressed to such Borrower, and to retain all mail relating to the Collateral of such Borrower and forward all other mail to such Borrower, (f) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure, make, settle, and adjust all claims under such Borrower's policies of insurance and make all determinations and decisions with respect to such policies of insurance, and (g) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure, settle and adjust disputes and claims respecting the Accounts of such Borrower directly with Account Debtors, for amounts and upon terms that Foothill determines to be reasonable, and Foothill may cause to be executed and delivered any documents and releases that Foothill determines to be necessary. The appointment of Foothill as such Borrower's attorney, and each and every one of Foothill's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and Foothill's obligation to extend credit hereunder is terminated.

4.6 Right to Inspect. Foothill (through any of its officers, employees, or agents) shall have the right, from time to time hereafter to inspect Borrowers' Books and

to check, test, and appraise the Collateral in order to verify Borrowers' financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES.

In order to induce Foothill to enter into this Agreement, each Borrower makes the following representations and warranties which shall be true, correct, and complete in all respects as of the date hereof, and shall be true, correct, and complete in all respects as of the Closing Date, and at and as of the date of the making of each Advance, Letter of Credit and Term Loans as though made on and as of the date of such Advance, Letter of Credit and Term Loans (except to the extent that such representations and warranties relate solely to an earlier date) and such representations and warranties shall survive the execution and delivery of this Agreement:

5.1 No Encumbrances. Each Borrower has good and indefeasible title to its Collateral, free and clear of Liens except for Permitted Liens.

5.2 Eligible Accounts. The Eligible Accounts of each Borrower are bona fide existing obligations created by the sale and delivery of Inventory or the rendition of services to Account Debtors in the ordinary course of such Borrower's business, unconditionally owed to such Borrower without (to the best of such Borrower's knowledge) defenses, disputes, offsets, counterclaims, or rights of return or cancellation. The property giving rise to such Eligible Accounts has been delivered to the Account Debtor, or to the Account Debtor's agent for immediate shipment to and unconditional acceptance by the Account Debtor. Borrowers have not received notice of actual or imminent bankruptcy, insolvency, or material impairment of the financial condition of any Account Debtor regarding any Eligible Account.

5.3 Eligible Inventory. All Eligible Inventory of Borrowers is of good and merchantable quality, free from known defects.

5.4 Equipment. All of the Equipment of Borrowers is used or held for use in Borrowers' business and is fit for such purposes.

5.5 Location of Inventory and Equipment. The Inventory and Equipment of Borrowers are not stored with a bailee, warehouseman, or similar party (without Foothill's prior written consent) and are located only at the locations identified on Schedule 6.12 or otherwise permitted by Section 6.12.

5.6 Inventory Records. Each Borrower keeps correct and accurate records itemizing and describing the kind, type, quality, and quantity of its Inventory, and such Borrower's cost therefor.

5.7 Location of Chief Executive Office; FEIN. The chief executive office of each Borrower is located at 1720 Sublette Avenue, St. Louis, Missouri 63110, and each Borrower's FEIN is set forth below:

Borrower	FEIN
Parent	25-1370721
B&F	34-1792342
Bear	95-3583558
Hospital Systems	94-3218390
Life Support	95-3560739
Bicore	33-0364518

5.8 Due Organization and Qualification; Subsidiaries.

(a) Each Borrower is duly organized and existing and in good standing under the laws of the jurisdiction of its incorporation and qualified and licensed to do business in, and in good standing in, any state where the failure to be so licensed or qualified reasonably could be expected to have a Material Adverse Change.

(b) Set forth on Schedule 5.8, is a complete and accurate list of each Borrower's direct and indirect Subsidiaries, showing: (i) the jurisdiction of their incorporation; (ii) the number of shares of each class of common and preferred stock authorized for each of such Subsidiaries; and (iii) the number and the percentage of the outstanding shares of each such class owned directly or indirectly by such Borrower. All of the outstanding capital stock of each such Subsidiary has been validly issued and is fully paid and non-assessable.

(c) Except as set forth on Schedule 5.8, no capital stock (or any securities, instruments, warrants, options, purchase rights, conversion or exchange rights, calls, commitments or claims of any character convertible into or exercisable for capital stock) of any direct or indirect Subsidiary of any Borrower is subject to the issuance of any security, instrument, warrant, option, purchase right, conversion or exchange right, call, commitment or claim of any right, title, or interest therein or thereto.

5.9 Due Authorization; No Conflict.

(a) The execution, delivery, and performance by each Borrower of this Agreement and the Loan Documents to which it is a party have been duly authorized by all necessary corporate action.

(b) The execution, delivery, and performance by each Borrower of this Agreement and the Loan Documents to which it is a party do not and will not (i) violate

any provision of federal, state, or local law or regulation (including Regulations G, T, U, and X of the Federal Reserve Board) applicable to such Borrower, the Governing Documents of such Borrower, or any order, judgment, or decree of any court or other Governmental Authority binding on such Borrower, (ii) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material contractual obligation or material lease of such Borrower, (iii) result in or require the creation or imposition of any Lien of any nature whatsoever upon any properties or assets of such Borrower, other than Permitted Liens, or (iv) require any approval of stockholders or any approval or consent of any Person under any material contractual obligation of such Borrower.

(c) Other than the filing of appropriate financing statements, fixture filings, and mortgages, the execution, delivery, and performance by each Borrower of this Agreement and the Loan Documents to which such Borrower is a party do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any federal, state, foreign, or other Governmental Authority or other Person.

(d) This Agreement and the Loan Documents to which any Borrower is a party, and all other documents contemplated hereby and thereby, when executed and delivered by such Borrower will be the legally valid and binding obligations of such Borrower, enforceable against such Borrower in accordance with their respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

(e) The Liens granted by each Borrower to Foothill in and to its properties and assets pursuant to this Agreement and the other Loan Documents are validly created, perfected, and first priority Liens, subject only to Permitted Liens.

5.10 Litigation. There are no actions or proceedings pending by or against any Borrower before any court or administrative agency and no Borrower has any knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving any Borrower or any guarantor of the Obligations, except for: (a) ongoing collection matters in which a Borrower is the plaintiff; (b) matters disclosed on Schedule 5.10; and (c) matters arising after the date hereof that, if decided adversely to a Borrower, would not have a Material Adverse Change.

5.11 No Material Adverse Change. All financial statements relating to any Borrower or any guarantor of the Obligations that have been delivered by any Borrower to Foothill have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and fairly present such Borrower's (or such guarantor's, as applicable) financial condition as of the date thereof and such Borrower's results of operations for the period then ended. There has not been a Material Adverse Change with respect to any Borrower (or such

guarantor, as applicable) since the date of the latest financial statements submitted to Foothill on or before the Closing Date.

5.12 Solvency. Each Borrower is Solvent. No transfer of property is being made by any Borrower and no obligation is being incurred by any Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of any Borrower.

5.13 Employee Benefits. None of Borrowers, any of their Subsidiaries, or any of their ERISA Affiliates maintains or contributes to any Benefit Plan, other than those listed on Schedule 5.13. Each Borrower, each of its Subsidiaries and each ERISA Affiliate have satisfied the minimum funding standards of ERISA and the IRC with respect to each Benefit Plan to which it is obligated to contribute. No ERISA Event has occurred nor has any other event occurred that may result in an ERISA Event that reasonably could be expected to result in a Material Adverse Change. None of Borrowers or their Subsidiaries, any ERISA Affiliate, or any fiduciary of any Plan is subject to any direct or indirect liability with respect to any Plan under any applicable law, treaty, rule, regulation, or agreement. None of Borrowers or their Subsidiaries or any ERISA Affiliate is required to provide security to any Plan under Section 401(a)(29) of the IRC.

5.14 Environmental Condition. None of Borrowers' properties or assets has ever been used by any Borrower or, to the best of each Borrower's knowledge, by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials. None of Borrowers' properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, or a candidate for closure pursuant to any environmental protection statute. No Lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned or operated by any Borrower. No Borrower has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by any Borrower resulting in the releasing or disposing of Hazardous Materials into the environment.

6. AFFIRMATIVE COVENANTS.

Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, and unless Foothill shall otherwise consent in writing, such Borrower shall do all of the following:

6.1 Accounting System. Maintain a standard and modern system of accounting that enables such Borrower to produce financial statements in accordance with GAAP, and maintain records pertaining to its Collateral that contain information as from time to time may be requested by Foothill. Such Borrower also shall keep a modern inventory

reporting system that shows all additions, sales, claims, returns, and allowances with respect to its Inventory.

6.2 Collateral Reporting. Provide Foothill with the following documents at the following times in form satisfactory to Foothill: (a) on each Business Day, a sales journal, collection journal, and credit register since the last such schedule and a calculation of the Borrowing Base as of such date using the amount of ineligible Accounts as determined based upon the prior month's aging of Accounts; (b) on a monthly basis and, in any event, by no later than the 10th day of each month during the term of this Agreement, (i) a detailed calculation of the Borrowing Base, and (ii) a detailed aging, by total, of such Borrower's Accounts, together with a reconciliation to the detailed calculation of the Borrowing Base previously provided to Foothill; (c) on a monthly basis and, in any event, by no later than the 10th day of each month during the term of this Agreement, a summary aging, by vendor, of such Borrower's accounts payable and any book overdraft; (d) on a weekly basis, Inventory reports specifying such Borrower's cost; (e) on each Business Day, notice of all returns, disputes, or claims; (f) upon request, copies of invoices in connection with its Accounts, customer statements, credit memos, remittance advices and reports, deposit slips, shipping and delivery documents in connection with its Accounts and for Inventory and Equipment acquired by such Borrower, purchase orders and invoices; (g) on a quarterly basis, a detailed list of such Borrower's customers; (h) on a monthly basis, a calculation of the Dilution for the prior month; and (i) such other reports as to the Collateral or the financial condition of such Borrower as Foothill may request from time to time. Original sales invoices evidencing daily sales shall be mailed by such Borrower to each Account Debtor and, at Foothill's direction, the invoices shall indicate on their face that such Borrower's Account has been assigned to Foothill and that all payments are to be made directly to Foothill.

6.3 Financial Statements, Reports, Certificates. Deliver to Foothill: (a) as soon as available, but in any event within 45 days after the end of each month during each of Parent's fiscal years, a company prepared balance sheet, income statement, and statement of cash flow covering Parent's operations during such period; and (b) as soon as available, but in any event within 90 days after the end of each of such Parent's fiscal years, financial statements of Parent for each such fiscal year, audited by independent certified public accountants reasonably acceptable to Foothill and certified, without any qualifications, by such accountants to have been prepared in accordance with GAAP, together with a certificate of such accountants addressed to Foothill stating that such accountants do not have knowledge of the existence of any Default or Event of Default. Such audited financial statements shall include a balance sheet, profit and loss statement, and statement of cash flow and, if prepared, such accountants' letter to management, and shall be accompanied by a calculation of the Borrowers' Free Cash Flow. In addition to the financial statements referred to above, Parent agrees to deliver financial statements prepared on a consolidating basis so as to present such Parent and each such related entity separately, and on a consolidated basis.

Together with the above, Parent also shall deliver to Foothill such Parent's Form 10-Q Quarterly Reports, Form 10-K Annual Reports, and Form 8-K Current Reports, and any other filings made by Parent with the Securities and Exchange Commission, if any, as soon as the same are filed, or any other information that is provided by Parent to its shareholders, and any other report reasonably requested by Foothill relating to the financial condition of such Parent.

Each month, together with the financial statements provided pursuant to Section 6.3(a), Parent shall deliver to Foothill a certificate signed by its chief financial officer to the effect that: (i) all financial statements delivered or caused to be delivered to Foothill hereunder have been prepared in accordance with GAAP (except, in the case of unaudited financial statements, for the lack of footnotes and being subject to year-end audit adjustments) and fairly present the financial condition of Parent, (ii) the representations and warranties of Borrowers contained in this Agreement and the other Loan Documents are true and correct in all material respects on and as of the date of such certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date), (iii) for each month that also is the date on which a financial covenant in Section 7.20 is to be tested, a Compliance Certificate demonstrating in reasonable detail compliance at the end of such period with the applicable financial covenants contained in Section 7.20, and (iv) on the date of delivery of such certificate to Foothill there does not exist any condition or event that constitutes a Default or Event of Default (or, in the case of clauses (i), (ii), or (iii), to the extent of any non-compliance, describing such non-compliance as to which he or she may have knowledge and what action Parent has taken, is taking, or proposes to take with respect thereto).

Each Borrower shall have issued written instructions to its independent certified public accountants authorizing them to communicate with Foothill and to release to Foothill whatever financial information concerning such Borrower that Foothill may request. Each Borrower hereby irrevocably authorizes and directs all auditors, accountants, or other third parties to deliver to Foothill, at such Borrower's expense, copies of such Borrower's financial statements, papers related thereto, and other accounting records of any nature in their possession, and to disclose to Foothill any information they may have regarding such Borrower's business affairs and financial conditions.

6.4 Tax Returns. Deliver to Foothill copies of each of such Parent's future federal income tax returns, and any amendments thereto, within 45 days of the filing thereof with the Internal Revenue Service.

6.5 Intentionally Deleted.

6.6 Returns. Cause returns and allowances, if any, as between such Borrower and its Account Debtors to be on the same basis and in accordance with the usual customary practices of such Borrower, as they exist at the time of the execution and delivery

of this Agreement. If, at a time when no Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to such Borrower, such Borrower shall determine the reason for such return as soon as reasonably practicable and, if such Borrower accepts such return, issue a credit memorandum (with a copy to be sent to Foothill) in the appropriate amount to such Account Debtor. If, at a time when an Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to such Borrower, such Borrower promptly shall determine the reason for such return and, if Foothill consents (which consent shall not be unreasonably withheld), issue a credit memorandum (with a copy to be sent to Foothill) in the appropriate amount to such Account Debtor.

6.7 Title to Equipment. Upon Foothill's request, such Borrower immediately shall deliver to Foothill, properly endorsed, any and all evidences of ownership of, certificates of title, or applications for title to any items of its Equipment.

6.8 Maintenance of Equipment. Maintain its Equipment in good operating condition and repair (ordinary wear and tear excepted), and make all necessary replacements thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved. Other than those items of Equipment that constitute fixtures on the Closing Date, such Borrower shall not permit any item of its Equipment to become a fixture to real estate or an accession to other property, and such Equipment shall at all times remain personal property.

6.9 Taxes. Cause all assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against such Borrower or any of its property to be paid in full, before delinquency or before the expiration of any extension period, except to the extent that the validity of such assessment or tax shall be the subject of a Permitted Protest. Such Borrower shall make due and timely payment or deposit of all such federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Foothill, on demand, appropriate certificates attesting to the payment thereof or deposit with respect thereto. Such Borrower will make timely payment or deposit of all tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Foothill with proof satisfactory to Foothill indicating that such Borrower has made such payments or deposits.

6.10 Insurance.

(a) At its expense, keep its Personal Property Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as are ordinarily insured against by other owners in similar businesses. Such Borrower also shall maintain business interruption, public liability, product liability, and property damage insurance relating to such Borrower's ownership and use of its Personal

Property Collateral, as well as insurance against larceny, embezzlement, and criminal misappropriation.

(b) At its expense, obtain and maintain (i) insurance of the type necessary to insure the Improvements and Chattels (as such terms are defined in the Mortgages), for the full replacement cost thereof, against any loss by fire, lightning, windstorm, hail, explosion, aircraft, smoke damage, vehicle damage, earthquakes, elevator collision, and other risks from time to time included under "extended coverage" policies, in such amounts as Foothill may require, but in any event in amounts sufficient to prevent such Borrower from becoming a co-insurer under such policies, (ii) combined single limit bodily injury and property damages insurance against any loss, liability, or damages on, about, or relating to each parcel of Real Property Collateral, in an amount of not less than \$1,000,000; and (iii) insurance for such other risks as Foothill may require. Replacement costs, at Foothill's option, may be redetermined by an insurance appraiser, satisfactory to Foothill, not more frequently than once every 12 months at such Borrower's cost.

(c) All such policies of insurance shall be in such form, with such companies, and in such amounts as may be reasonably satisfactory to Foothill. All insurance required herein shall be written by companies which are authorized to do insurance business in the State of California. All hazard insurance and such other insurance as Foothill shall specify, shall contain a California Form 438BFU (NS) mortgagee endorsement, or an equivalent endorsement satisfactory to Foothill, showing Foothill as sole loss payee thereof, and shall contain a waiver of warranties. Every policy of insurance referred to in this Section 6.10 shall contain an agreement by the insurer that it will not cancel such policy except after 30 days prior written notice to Foothill and that any loss payable thereunder shall be payable notwithstanding any act or negligence of such Borrower or Foothill which might, absent such agreement, result in a forfeiture of all or a part of such insurance payment and notwithstanding (i) occupancy or use of the Real Property Collateral for purposes more hazardous than permitted by the terms of such policy, (ii) any foreclosure or other action or proceeding taken by Foothill pursuant to the Mortgages upon the happening of an Event of Default, or (iii) any change in title or ownership of the Real Property Collateral. Such Borrower shall deliver to Foothill certified copies of such policies of insurance and evidence of the payment of all premiums therefor.

(d) Original policies or certificates thereof satisfactory to Foothill evidencing such insurance shall be delivered to Foothill prior to the expiration of the existing or preceding policies. Such Borrower shall give Foothill prompt notice of any loss covered by such insurance, and Foothill shall have the right to adjust any loss. Foothill shall have the exclusive right to adjust all losses payable under any such insurance policies without any liability to such Borrower whatsoever in respect of such adjustments. Any monies received as payment for any loss under any insurance policy including the insurance policies mentioned above, shall be paid over to Foothill to be applied at the option of Foothill either to the prepayment of the Obligations without premium, in such order or manner as Foothill may

elect, or shall be disbursed to such Borrower under stage payment terms satisfactory to Foothill for application to the cost of repairs, replacements, or restorations. All repairs, replacements, or restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items or property destroyed prior to such damage or destruction. Upon the occurrence of an Event of Default, Foothill shall have the right to apply all prepaid premiums to the payment of the Obligations in such order or form as Foothill shall determine.

(e) Such Borrower shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 6.10, unless Foothill is included thereon as named insured with the loss payable to Foothill under a standard California 438BFU (NS) Mortgagee endorsement, or its local equivalent. Such Borrower immediately shall notify Foothill whenever such separate insurance is taken out, specifying the insurer thereunder and full particulars as to the policies evidencing the same, and originals of such policies immediately shall be provided to Foothill.

6.11 No Setoffs or Counterclaims. Make payments hereunder and under the other Loan Documents by or on behalf of such Borrower without setoff or counterclaim and free and clear of, and without deduction or withholding for or on account of, any federal, state, or local taxes.

6.12 Location of Inventory and Equipment. Keep its Inventory and Equipment only at the locations identified on Schedule 6.12; provided, however, that Borrowers may amend Schedule 6.12 so long as such amendment occurs by written notice to Foothill not less than 30 days prior to the date on which the Inventory or Equipment of Borrowers is moved to such new location, so long as such new location is within the continental United States, and so long as, at the time of such written notification, Borrowers provide any financing statements or fixture filings necessary to perfect and continue perfected Foothill's security interests in such assets and also provides to Foothill a Collateral Access Agreement.

6.13 Compliance with Laws. Comply with the requirements of all applicable laws, rules, regulations, and orders of any governmental authority, including the Fair Labor Standards Act and the Americans With Disabilities Act, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, would not have and could not reasonably be expected to have a Material Adverse Change.

6.14 Employee Benefits.

(a) Deliver to Foothill: (i) promptly, and in any event within 10 Business Days after such Borrower or any of its Subsidiaries knows or has reason to know that an ERISA Event has occurred that reasonably could be expected to result in a Material Adverse Change, a written statement of the chief financial officer of such Borrower

describing such ERISA Event and any action that is being taken with respect thereto by such Borrower, any such Subsidiary or ERISA Affiliate, and any action taken or threatened by the IRS, Department of Labor, or PBGC. Such Borrower or such Subsidiary, as applicable, shall be deemed to know all facts known by the administrator of any Benefit Plan of which it is the plan sponsor, (ii) promptly, and in any event within 3 Business Days after the filing thereof with the IRS, a copy of each funding waiver request filed with respect to any Benefit Plan and all communications received by such Borrower, any of its Subsidiaries or, to the knowledge of such Borrower, any ERISA Affiliate with respect to such request, and (iii) promptly, and in any event within 3 Business Days after receipt by such Borrower, any of its Subsidiaries or, to the knowledge of such Borrower, any ERISA Affiliate, of the PBGC's intention to terminate a Benefit Plan or to have a trustee appointed to administer a Benefit Plan, copies of each such notice.

(b) Cause to be delivered to Foothill, upon Foothill's request, each of the following: (i) a copy of each Plan (or, where any such plan is not in writing, complete description thereof) (and if applicable, related trust agreements or other funding instruments) and all amendments thereto, all written interpretations thereof and written descriptions thereof that have been distributed to employees or former employees of such Borrower or its Subsidiaries; (ii) the most recent determination letter issued by the IRS with respect to each Benefit Plan; (iii) for the three most recent plan years, annual reports on Form 5500 Series required to be filed with any governmental agency for each Benefit Plan; (iv) all actuarial reports prepared for the last three plan years for each Benefit Plan; (v) a listing of all Multiemployer Plans, with the aggregate amount of the most recent annual contributions required to be made by such Borrower or any ERISA Affiliate to each such plan and copies of the collective bargaining agreements requiring such contributions; (vi) any information that has been provided to such Borrower or any ERISA Affiliate regarding withdrawal liability under any Multiemployer Plan; and (vii) the aggregate amount of the most recent annual payments made to former employees of such Borrower or its Subsidiaries under any Retiree Health Plan.

6.15 Leases. Pay when due all rents and other amounts payable under any leases to which such Borrower is a party or by which such Borrower's properties and assets are bound, unless such payments are the subject of a Permitted Protest. To the extent that such Borrower fails timely to make payment of such rents and other amounts payable when due under its leases, Foothill shall be entitled, in its discretion, to reserve an amount equal to such unpaid amounts against the Borrowing Base.

7. NEGATIVE COVENANTS.

Each Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, such Borrower will not, without Foothill's prior written approval which may be given in Foothill's sole discretion, do any of the following:

7.1 Indebtedness. Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement, together with Indebtedness to issuers of letters of credit that are the subject of L/C Guarantees;

(b) Indebtedness set forth in the latest financial statements of Borrowers submitted to Foothill on or prior to the Closing Date;

(c) Indebtedness secured by Permitted Liens;

(d) Indebtedness evidenced by the Junior Notes;

(e) The private placement of subordinate debt on terms and conditions consistent in all material respects with the A.G. Edwards draft Private Placement Memorandum dated July 24, 1997, with subordination provisions no less favorable than those set forth in those certain Subordination Agreements entered into by Foothill in connection with the Junior Notes; and

(f) refinancings, renewals, or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Borrowers, (ii) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, refundings, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, and (iv) to the extent that Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing Indebtedness must be at least as favorable to Foothill as those applicable to the refinanced Indebtedness.

7.2 Liens. Create, incur, assume, or permit to exist, directly or indirectly, any Lien on or with respect to any of its property or assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced under Section 7.1(d) and so long as the replacement Liens only encumber those assets or property that secured the original Indebtedness).

7.3 Restrictions on Fundamental Changes. Enter into any merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, assign,

lease, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its property or assets.

7.4 Disposal of Assets. Sell, lease, assign, transfer, or otherwise dispose of any of such Borrower's properties or assets other than sales of Inventory to buyers in the ordinary course of such Borrower's business as currently conducted.

7.5 Change Name. Change such Borrower's name, FEIN, corporate structure (within the meaning of Section 9402(7) of the Code), or identity, or add any new fictitious name.

7.6 Guarantee. Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except by endorsement of instruments or items of payment for deposit to the account of such Borrower or which are transmitted or turned over to Foothill.

7.7 Nature of Business. Make any change in the principal nature of such Borrower's business.

7.8 Prepayments and Amendments.

(a) Except in connection with a refinancing permitted by Section 7.1(d) or, so long as no Event of Default has occurred and is continuing, the prepayment of the Junior Notes upon completion of a Financing or Sale Event, prepay, redeem, retire, defease, purchase, or otherwise acquire any Indebtedness owing to any third Person, other than the Obligations in accordance with this Agreement, and

(b) Directly or indirectly, amend, modify, alter, increase, or change any of the terms or conditions of any agreement, instrument, document, indenture, or other writing evidencing or concerning Indebtedness permitted under Sections 7.1(b), (c), or (d).

7.9 Change of Control. Cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10 Consignments. Consign any Inventory or sell any of its Inventory on bill and hold, sale or return, sale on approval, or other conditional terms of sale.

7.11 Distributions. Make any distribution or declare or pay any dividends (in cash or other property, other than capital stock) on, or purchase, acquire, redeem, or retire any of such Borrower's capital stock, of any class, whether now or hereafter outstanding.

7.12 Accounting Methods. Modify or change its method of accounting or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of such Borrower's accounting records without said accounting firm or service bureau agreeing to provide Foothill information regarding the Collateral or such Borrower's financial condition. Such Borrower waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Foothill pursuant to or in accordance with this Agreement, and agrees that Foothill may contact directly any such accounting firm or service bureau in order to obtain such information.

7.13 Investments. Directly or indirectly make, acquire, or incur any liabilities (including contingent obligations) for or in connection with (a) the acquisition of the securities (whether debt or equity) of, or other interests in, a Person, (b) loans, advances, capital contributions, or transfers of property to a Person, or (c) the acquisition of all or substantially all of the properties or assets of a Person.

7.14 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of such Borrower except for transactions that are in the ordinary course of such Borrower's business, upon fair and reasonable terms, that are fully disclosed to Foothill, and that are no less favorable to such Borrower than would be obtained in an arm's length transaction with a non-Affiliate.

7.15 Suspension. Suspend or go out of a substantial portion of its business.

7.16 Intentionally Deleted.

7.17 Use of Proceeds. Use (a) the proceeds of the Advances and the Term Loans made hereunder for any purpose other than (i) on the Closing Date, (y) to repay in full the outstanding principal, accrued interest, and accrued fees and expenses owing to Existing Lender, and (z) to pay transactional costs and expenses incurred in connection with this Agreement, and (ii) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted corporate purposes.

7.18 Change in Location of Chief Executive Office; Inventory and Equipment with Bailees. Relocate its chief executive office to a new location without providing 30 days prior written notification thereof to Foothill and so long as, at the time of such written notification, such Borrower provides any financing statements or fixture filings necessary to perfect and continue perfected Foothill's security interests and also provides to Foothill a Collateral Access Agreement with respect to such new location. The Inventory and Equipment of such Borrower shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without Foothill's prior written consent.

7.19 No Prohibited Transactions Under ERISA. Directly or indirectly:

(a) engage, or permit any Subsidiary of such Borrower to engage, in any prohibited transaction which is reasonably likely to result in a civil penalty or excise tax described in Sections 406 of ERISA or 4975 of the IRC for which a statutory or class exemption is not available or a private exemption has not been previously obtained from the Department of Labor;

(b) permit to exist with respect to any Benefit Plan any accumulated funding deficiency (as defined in Sections 302 of ERISA and 412 of the IRC), whether or not waived;

(c) fail, or permit any Subsidiary of such Borrower to fail, to pay timely required contributions or annual installments due with respect to any waived funding deficiency to any Benefit Plan;

(d) terminate, or permit any Subsidiary of such Borrower to terminate, any Benefit Plan where such event would result in any liability of such Borrower, any of its Subsidiaries or any ERISA Affiliate under Title IV of ERISA;

(e) fail, or permit any Subsidiary of such Borrower to fail, to make any required contribution or payment to any Multiemployer Plan;

(f) fail, or permit any Subsidiary of such Borrower to fail, to pay any required installment or any other payment required under Section 412 of the IRC on or before the due date for such installment or other payment;

(g) amend, or permit any Subsidiary of such Borrower to amend, a Plan resulting in an increase in current liability for the plan year such that either of such Borrower, any Subsidiary of such Borrower or any ERISA Affiliate is required to provide security to such Plan under Section 401(a)(29) of the IRC; or

(h) withdraw, or permit any Subsidiary of such Borrower to withdraw, from any Multiemployer Plan where such withdrawal is reasonably likely to result in any liability of any such entity under Title IV of ERISA; which, individually or in the aggregate, results in or reasonably would be expected to result in a claim against or liability of such Borrower, any of its Subsidiaries or any ERISA Affiliate in excess of \$500,000.

7.20 Financial Covenants. Have Parent fail to maintain:

(a) Maximum Senior Debt to EBITDA. A ratio of the Senior Debt to EBITDA of less than the following as of the end of each of the following fiscal quarters:

Fiscal Quarter Ending	Maximum Ratio
September 30, 1997	7.3 - 1.0
December 31, 1997	5.9 - 1.0
March 31, 1998	5.4 - 1.0
June 30, 1998	4.1 - 1.0
September 30, 1998	4.1 - 1.0
December, 31, 1998	4.1 - 1.0
March 31, 1999	4.1 - 1.0
June 30, 1999	2.7 - 1.0
September 30, 1999	2.7 - 1.0
December 31, 1999	2.7 - 1.0
March 31, 2000	2.7 - 1.0
June 30, 2000	2.2 - 1.0

(b) Minimum Tangible Net Worth. Tangible Net Worth of at least the following amounts as of the end of the following fiscal quarters:

Fiscal Quarter Ending	Minimum Amount
September 30, 1997	\$5,950,000
December 31, 1997	6,450,000
March 31, 1998	7,000,000
June 30, 1998	7,500,000
September 30, 1998	7,500,000
December, 31, 1998	7,500,000
March 31, 1999	7,500,000
June 30, 1999	11,350,000
September 30, 1999	11,350,000
December 31, 1999	11,350,000
March 31, 2000	11,350,000
June 30, 2000	\$16,900,000

(c) Minimum EBITDA. EBITDA of at least the following amounts as of the end of the following fiscal quarters:

Fiscal Quarter Ending	Maximum Ratio
September 30, 1997	\$6,294,000
December 31, 1997	7,619,000
March 31, 1998	8,115,000
June 30, 1998	10,498,000
September 30, 1998	10,498,000
December, 31, 1998	10,498,000
March 31, 1999	10,498,000
June 30, 1999	12,244,000
September 30, 1999	12,244,000
December 31, 1999	12,244,000
March 31, 2000	12,244,000
June 30, 2000	\$14,222,000

After the occurrence of a Financing or Sale Event, Borrowers and Foothill shall negotiate modifications to the financial covenants to reflect such Financing and Sale Event, which modifications shall be reasonably satisfactory to Foothill.

7.21 Capital Expenditures. Borrowers shall, in the aggregate, make capital expenditures in any fiscal year in excess of \$3,000,000.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

8.1 If Borrowers fail to pay when due and payable or when declared due and payable, any portion of the Obligations (whether of principal, interest (including any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due Foothill, reimbursement of Foothill Expenses, or other amounts constituting Obligations);

8.2 If any Borrower fails to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between such Borrower and Foothill; provided, however, that Borrowers' failure to perform, keep, or observe the terms of Sections 6.2, 6.3, 6.4, 6.7, 6.8, 6.13, 6.14 or 6.15 shall not constitute an Event of Default unless such failure continues for five Business Days or more in the case of Section 6.2 and otherwise 15 days or more;

8.3 If there is a Material Adverse Change;

8.4 If any material portion of any Borrower's properties or assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any third Person;

8.5 If an Insolvency Proceeding is commenced by any Borrower;

8.6 If an Insolvency Proceeding is commenced against any Borrower and any of the following events occur: (a) such Borrower consents to the institution of the Insolvency Proceeding against it; (b) the petition commencing the Insolvency Proceeding is not timely controverted; (c) the petition commencing the Insolvency Proceeding is not dismissed within 60 calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, Foothill shall be relieved of its obligation to extend credit hereunder; (d) an interim trustee is appointed to take possession of all or a substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, such Borrower; or (e) an order for relief shall have been issued or entered therein;

8.7 If any Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

8.8 If a notice of Lien, levy, or assessment is filed of record with respect to any of any Borrower's properties or assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a Lien, whether choate or otherwise, upon any of such Borrower's properties or assets and the same is not paid on the payment date thereof; provided, however, that no such Liens or debts for aggregate amounts of less than \$250,000 (in the case of the United States Government) or \$1,000,000 (for any state, county or municipality) shall constitute an Event of Default if the same are discharged within 30 days of the date thereof; provided, however, that Foothill shall have the right to establish a reserve in Borrowers' Loan Account for the amount of such Liens;

8.9 If judgments or other claims, in excess of \$250,000 in the aggregate, become Liens or encumbrances upon any material portion of any Borrower's properties or assets, and such Liens or encumbrances are not discharged within 30 days of the date thereof or stayed pending appeal;

8.10 If there is a default in any material agreement to which any Borrower is a party with one or more third Persons and such default (a) occurs at the final maturity of the obligations thereunder, or (b) results in a right by such third Person(s), irrespective of whether exercised, to accelerate the maturity of such Borrower's obligations thereunder;

8.11 If any Borrower makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations,

except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness; or

8.12 If any material misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or report made to Foothill by any Borrower or any officer, employee, agent, or director of any Borrower, or if any such warranty or representation is withdrawn.

9. Foothill's RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence, and during the continuation, of an Event of Default Foothill may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrowers:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Cease advancing money or extending credit to or for the benefit of Borrowers under this Agreement, under any of the Loan Documents, or under any other agreement between Borrowers and Foothill;

(c) Terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of Foothill, but without affecting Foothill's rights and security interests in the Personal Property Collateral or the Real Property Collateral and without affecting the Obligations;

(d) Settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which Foothill considers advisable, and in such cases, Foothill will credit Borrowers' Loan Account with only the net amounts received by Foothill in payment of such disputed Accounts after deducting all Foothill Expenses incurred or expended in connection therewith;

(e) Cause Borrowers to hold all of their returned Inventory in trust for Foothill, segregate all such returned Inventory from all other property of any Borrower or in any Borrower's possession and conspicuously label said returned Inventory as the property of Foothill;

(f) Without notice to or demand upon any Borrower or any guarantor, make such payments and do such acts as Foothill considers necessary or reasonable to protect its security interests in the Collateral. Borrowers agree to assemble the Personal Property Collateral if Foothill so requires, and to make the Personal Property Collateral available to Foothill as Foothill may designate. Each Borrower authorizes Foothill to enter

the premises where the Personal Property Collateral is located, to take and maintain possession of the Personal Property Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or Lien that in Foothill's determination appears to conflict with its security interests and to pay all expenses incurred in connection therewith. With respect to any of Borrowers' owned or leased premises, each Borrower hereby grants Foothill a license to enter into possession of such premises and to occupy the same, without charge, for up to 120 days in order to exercise any of Foothill's rights or remedies provided herein, at law, in equity, or otherwise;

(g) Without notice to any Borrower (such notice being expressly waived), and without constituting a retention of any collateral in satisfaction of an obligation (within the meaning of Section 9505 of the Code), set off and apply to the Obligations any and all (i) balances and deposits of any Borrower held by Foothill (including any amounts received in the Lockbox Accounts), or (ii) indebtedness at any time owing to or for the credit or the account of any Borrower held by Foothill;

(h) Hold, as cash collateral, any and all balances and deposits of any Borrower held by Foothill, and any amounts received in the Lockbox Accounts, to secure the full and final repayment of all of the Obligations;

(i) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Personal Property Collateral. Foothill is hereby granted a license or other right to use, without charge, any Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Personal Property Collateral, in completing production of, advertising for sale, and selling any Personal Property Collateral and each Borrower's rights under all licenses and all franchise agreements shall inure to Foothill's benefit;

(j) Sell the Personal Property Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including any Borrower's premises) as Foothill determines is commercially reasonable. It is not necessary that the Personal Property Collateral be present at any such sale;

(k) Foothill shall give notice of the disposition of the Personal Property Collateral as follows:

(1) Foothill shall give Borrowers and each holder of a security interest in the Personal Property Collateral who has filed with Foothill a written request for notice, a notice in writing of the time and place of public sale, or, if the sale is a private sale or some other disposition other than a public sale is to be made of the Personal

Property Collateral, then the time on or after which the private sale or other disposition is to be made;

(2) The notice shall be personally delivered or mailed, postage prepaid, to Borrowers as provided in Section 12, at least 5 days before the date fixed for the sale, or at least 5 days before the date on or after which the private sale or other disposition is to be made; no notice needs to be given prior to the disposition of any portion of the Personal Property Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market. Notice to Persons other than Borrowers claiming an interest in the Personal Property Collateral shall be sent to such addresses as they have furnished to Foothill;

(3) If the sale is to be a public sale, Foothill also shall give notice of the time and place by publishing a notice one time at least 5 days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held;

(l) Foothill may credit bid and purchase at any public sale; and

(m) Any deficiency that exists after disposition of the Personal Property Collateral as provided above will be paid immediately by Borrowers. Any excess will be returned, without interest and subject to the rights of third Persons, by Foothill to Borrowers.

9.2 Remedies Cumulative. Foothill's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Foothill shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Foothill of one right or remedy shall be deemed an election, and no waiver by Foothill of any Event of Default shall be deemed a continuing waiver. No delay by Foothill shall constitute a waiver, election, or acquiescence by it.

10. TAXES AND EXPENSES.

If any Borrower fails to pay any monies (whether taxes, assessments, insurance premiums, or, in the case of leased properties or assets, rents or other amounts payable under such leases) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, to the extent that Foothill determines that such failure by such Borrower could result in a Material Adverse Change, in its discretion and without prior notice to Borrowers, Foothill may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves in Borrowers' Loan Account as Foothill deems necessary to protect Foothill from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type described in Section 6.10, and take any action with respect to such policies as Foothill deems prudent. Any such amounts paid by Foothill shall constitute Foothill Expenses. Any such

payments made by Foothill shall not constitute an agreement by Foothill to make similar payments in the future or a waiver by Foothill of any Event of Default under this Agreement. Foothill need not inquire as to, or contest the validity of, any such expense, tax, or Lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

11.1 Demand; Protest; etc. Each Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Foothill on which such Borrower may in any way be liable.

11.2 Foothill's Liability for Collateral. So long as Foothill complies with its obligations, if any, under Section 9207 of the Code, Foothill shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person. All risk of loss, damage, or destruction of the Collateral shall be borne by Borrowers.

11.3 Indemnification. Borrowers shall pay, indemnify, defend, and hold Foothill, each Participant, and each of their respective officers, directors, employees, counsel, agents, and attorneys-in-fact (each, an "Indemnified Person") harmless (to the fullest extent permitted by law) from and against any and all claims, demands, suits, actions, investigations, proceedings, and damages, and all reasonable attorneys fees and disbursements and other costs and expenses actually incurred in connection therewith (as and when they are incurred and irrespective of whether suit is brought), at any time asserted against, imposed upon, or incurred by any of them in connection with or as a result of or related to the execution, delivery, enforcement, performance, and administration (including any of the foregoing arising out of the administration of the credit facilities hereunder on a joint borrowing basis) of this Agreement and any other Loan Documents or the transactions contemplated herein, and with respect to any investigation, litigation, or proceeding related to this Agreement, any other Loan Document, or the use of the proceeds of the credit provided hereunder (irrespective of whether any Indemnified Person is a party thereto), or any act, omission, event or circumstance in any manner related thereto (all the foregoing, collectively, the "Indemnified Liabilities"). Borrowers shall have no obligation to any Indemnified Person under this Section 11.3 with respect to any Indemnified Liability that a court of competent jurisdiction finally determines to have resulted from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement and the repayment of the Obligations.

11.4 Joint Borrowers.

(a) Each Borrower agrees that it is jointly and severally, directly and primarily liable to Foothill for payment in full of all Obligations, whether for principal, interest or otherwise and that such liability is independent of the duties, obligations, and liabilities of the other Borrowers. Foothill may bring a separate action or actions on each, any, or all of the Obligations against any Borrower, whether action is brought against the other Borrowers or whether the other Borrowers are joined in such action. In the event that any Borrower fails to make any payment of any Obligations on or before the due date thereof, the other Borrowers immediately shall cause such payment to be made or each of such Obligations to be performed, kept, observed, or fulfilled.

(b) The Loan Documents are a primary and original obligation of each Borrower, are not the creation of a surety relationship, and are an absolute, unconditional, and continuing promise of payment and performance which shall remain in full force and effect without respect to future changes in conditions, including any change of law or any invalidity or irregularity with respect to the Loan Documents. Each Borrower agrees that its liability under the Loan Documents shall be immediate and shall not be contingent upon the exercise or enforcement by Foothill of whatever remedies it may have against the other Borrowers, or the enforcement of any lien or realization upon any security Foothill may at any time possess. Each Borrower consents and agrees that Foothill shall be under no obligation (under Section 2899 or 3433 of the California Civil Code or otherwise) to marshal any assets of any Borrower against or in payment of any or all of the Obligations.

(c) Each Borrower acknowledges that it is presently informed as to the financial condition of the other Borrowers and of all other circumstances which a diligent inquiry would reveal and which bear upon the risk of nonpayment of the Obligations. Each Borrower hereby covenants that it will continue to keep informed as to the financial condition of the other Borrowers, the status of the other Borrowers and of all circumstances which bear upon the risk of nonpayment of the Obligations. Absent a written request from any Borrower to Foothill for information, such Borrower hereby waives any and all rights it may have to require Foothill to disclose to such Borrower any information which Foothill may now or hereafter acquire concerning the condition or circumstances of the other Borrowers.

(d) The liability of each Borrower under the Loan Documents includes Obligations arising under successive transactions continuing, compromising, extending, increasing, modifying, releasing, or renewing the Obligations, changing the interest rate, payment terms, or other terms and conditions thereof, or creating new or additional Obligations after prior Obligations have been satisfied in whole or in part. To the maximum extent permitted by law, each Borrower hereby waives any right to revoke its liability under the Loan Documents as to future indebtedness, and in connection therewith, each Borrower hereby waives any rights it may have under Section 2815 of the California Civil Code. If such a revocation is effective notwithstanding the foregoing waiver,

each Borrower acknowledges and agrees that (a) no such revocation shall be effective until written notice thereof has been received by Foothill, (b) no such revocation shall apply to any Obligations in existence on such date (including, any subsequent continuation, extension, or renewal thereof, or change in the interest rate, payment terms, or other terms and conditions thereof), (c) no such revocation shall apply to any Obligations made or created after such date to the extent made or created pursuant to a legally binding commitment of Foothill in existence on the date of such revocation, (d) no payment by such Borrower or from any other source prior to the date of such revocation shall reduce the maximum obligation of the other Borrowers hereunder, and (e) any payment by such Borrower or from any source other than Borrowers, subsequent to the date of such revocation, shall first be applied to that portion of the Obligations as to which the revocation is effective and which are not, therefore, guaranteed hereunder, and to the extent so applied shall not reduce the maximum obligation of each Borrower hereunder.

(e) (i) Each Borrower absolutely, unconditionally, knowingly, and expressly waives:

(1) (A) notice of acceptance hereof; (B) notice of any loans or other financial accommodations made or extended under the Loan Documents or the creation or existence of any Obligations; (C) notice of the amount of the Obligations, subject, however, to each Borrower's right to make inquiry of Foothill to ascertain the amount of the Obligations at any reasonable time; (D) notice of any adverse change in the financial condition of the other Borrowers or of any other fact that might increase such Borrower's risk hereunder; (E) notice of presentment for payment, demand, protest, and notice thereof as to any instruments among the Loan Documents; and (F) all notices (except if such notice is specifically required to be given to Borrowers hereunder or under the Loan Documents) and demands to which such Borrower might otherwise be entitled.

(2) its right, under Sections 2845 or 2850 of the California Civil Code, or otherwise, to require Foothill to institute suit against, or to exhaust any rights and remedies which Foothill has or may have against, the other Borrowers or any third party, or against any Collateral provided by the other Borrowers, or any third party. In this regard, each Borrower agrees that it is bound to the payment of all Obligations, whether now existing or hereafter accruing, as fully as if such Obligations were directly owing to Foothill by such Borrower. Each Borrower further waives any defense arising by reason of any disability or other defense (other than the defense that the Obligations shall have been fully and finally performed and indefeasibly paid) of the other Borrowers or by reason of the cessation from any cause whatsoever of the liability of the other Borrowers in respect thereof.

(3) (A) any rights to assert against Foothill any defense (legal or equitable), set-off, counterclaim, or claim which such Borrower may now

or at any time hereafter have against the other Borrowers or any other party liable to Foothill; (B) any defense, set-off, counterclaim, or claim, of any kind or nature, arising directly or indirectly from the present or future lack of perfection, sufficiency, validity, or enforceability of the Obligations or any security therefor; (C) any defense such Borrower has to performance hereunder, and any right such Borrower has to be exonerated, provided by Sections 2819, 2822, or 2825 of the California Civil Code, or otherwise, arising by reason of: the impairment or suspension of Foothill's rights or remedies against the other Borrowers; the alteration by Foothill of the Obligations; any discharge of the other Borrowers' obligations to Foothill by operation of law as a result of Foothill's intervention or omission; or the acceptance by Foothill of anything in partial satisfaction of the Obligations; (D) the benefit of any statute of limitations affecting such Borrower's liability hereunder or the enforcement thereof, and any act which shall defer or delay the operation of any statute of limitations applicable to the Obligations shall similarly operate to defer or delay the operation of such statute of limitations applicable to such Borrower's liability hereunder.

(ii) Each Borrower absolutely, unconditionally, knowingly, and expressly waives any defense arising by reason of or deriving from (i) any claim or defense based upon an election of remedies by Foothill including any defense based upon an election of remedies by Foothill under the provisions of Sections 580a, 580b, 580d, and 726 of the California Code of Civil Procedure or any similar law of California or any other jurisdiction; or (ii) any election by Foothill under Bankruptcy Code Section 1111(b) to limit the amount of, or any collateral securing, its claim against the Borrowers. Pursuant to California Civil Code Section 2856(b):

"Each Borrower waives all rights and defenses arising out of an election of remedies by the creditor, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed such Borrower's rights of subrogation and reimbursement against the other Borrowers by the operation of Section 580(d) of the California Code of Civil Procedure or otherwise."

If any of the Obligations at any time is secured by a mortgage or deed of trust upon real property, Foothill may elect, in its sole discretion, upon a default with respect to the Obligations, to foreclose such mortgage or deed of trust judicially or nonjudicially in any manner permitted by law, before or after enforcing the Loan Documents, without diminishing or affecting the liability of any Borrower hereunder except to the extent the Obligations are repaid with the proceeds of such foreclosure. Each Borrower understands that (a) by virtue of the operation of California's antideficiency law applicable to nonjudicial foreclosures, an election by Foothill nonjudicially to foreclose such a mortgage or deed of trust probably would have the effect of impairing or destroying rights of subrogation, reimbursement, contribution, or indemnity of such Borrower against the other Borrowers or other guarantors or sureties, and (b) absent the waiver given by such Borrower, such an election would prevent

Foothill from enforcing the Loan Documents against such Borrower. Understanding the foregoing, and understanding that such Borrower is hereby relinquishing a defense to the enforceability of the Loan Documents, such Borrower hereby waives any right to assert against Foothill any defense to the enforcement of the Loan Documents, whether denominated "estoppel" or otherwise, based on or arising from an election by Foothill nonjudicially to foreclose any such mortgage or deed of trust. Each Borrower understands that the effect of the foregoing waiver may be that each Borrower may have liability hereunder for amounts with respect to which such Borrower may be left without rights of subrogation, reimbursement, contribution, or indemnity against the other Borrower or other guarantors or sureties. Each Borrower also agrees that the "fair market value" provisions of Section 580a of the California Code of Civil Procedure shall have no applicability with respect to the determination of such Borrower's liability under the Loan Documents.

(iii) Until such time as all Obligations have been fully, finally, and indefeasibly paid in full, in cash, each Borrower hereby absolutely, unconditionally, knowingly, and expressly postpones: (1) any right of subrogation such Borrower has or may have as against the other Borrowers with respect to the Obligations; (2) any right to proceed against the other Borrowers or any other Person, now or hereafter, for contribution, indemnity, reimbursement, or any other suretyship rights and claims, whether direct or indirect, liquidated or contingent, whether arising under express or implied contract or by operation of law, which such Borrower may now have or hereafter have as against the other Borrowers with respect to the Obligations; and (3) any right to proceed or seek recourse against or with respect to any property or asset of the other Borrowers.

(iv) WITHOUT LIMITING THE GENERALITY OF ANY OTHER WAIVER OR OTHER PROVISION SET FORTH IN THIS SECTION 11.4, EACH BORROWER HEREBY ABSOLUTELY, KNOWINGLY, UNCONDITIONALLY, AND EXPRESSLY WAIVES AND AGREES NOT TO ASSERT ANY AND ALL BENEFITS OR DEFENSES ARISING DIRECTLY OR INDIRECTLY UNDER ANY ONE OR MORE OF CALIFORNIA CIVIL CODE SECTIONS 2799, 2808, 2809, 2810, 2815, 2819, 2820, 2821, 2822, 2825, 2839, 2845, 2848, 2849, AND 2850, CALIFORNIA CODE OF CIVIL PROCEDURE SECTIONS 580a, 580b, 580c, 580d, AND 726, AND CHAPTER 2 OF TITLE 14 OF THE CALIFORNIA CIVIL CODE.b

(f) Each Borrower consents and agrees that, without notice to or by such Borrower, and without affecting or impairing the liability of such Borrower hereunder, Foothill may, by action or inaction:

(i) compromise, settle, extend the duration or the time for the payment of, or discharge the performance of, or may refuse to or otherwise not enforce the Loan

Documents, or any part thereof, with respect to the other Borrowers;

(ii) release the other Borrowers or grant other indulgences to the other Borrowers in respect thereof; or

(iii) release or substitute any guarantor, if any, of the Obligations, or enforce, exchange, release, or waive any security for the Obligations or any guaranty of the Obligations, or any portion thereof.

(g) Foothill shall have the right to seek recourse against each Borrower to the fullest extent provided for herein, and no election by Foothill to proceed in one form of action or proceeding, or against any party, or on any obligation, shall constitute a waiver of Foothill's right to proceed in any other form of action or proceeding or against other parties unless Foothill has expressly waived such right in writing. Specifically, but without limiting the generality of the foregoing, no action or proceeding by Foothill under the Loan Documents shall serve to diminish the liability of any Borrower thereunder except to the extent that Foothill finally and unconditionally shall have realized indefeasible payment by such action or proceeding.

(h) The Obligations shall not be considered indefeasibly paid for purposes of this Section 11.4 unless and until all payments to Foothill are no longer subject to any right on the part of any person, including any Borrower, any Borrower as a debtor in possession, or any trustee (whether appointed pursuant to 11 U.S.C., or otherwise) of any Borrower's assets to invalidate or set aside such payments or to seek to recoup the amount of such payments or any portion thereof, or to declare same to be fraudulent or preferential. Upon such full and final performance and indefeasible payment of the Obligations, Foothill shall have no obligation whatsoever to transfer or assign its interest in the Loan Documents to any Borrower. In the event that, for any reason, any portion of such payments to Foothill is set aside or restored, whether voluntarily or involuntarily, after the making thereof, then the obligation intended to be satisfied thereby shall be revived and continued in full force and effect as if said payment or payments had not been made, and each Borrower shall be liable for the full amount Foothill is required to repay plus any and all costs and expenses (including attorneys' fees and attorneys' fees incurred pursuant to 11 U.S.C.) paid by Foothill in connection therewith.

Borrowers and each of them warrant and agree that each of the waivers and consents set forth herein are made after consultation with legal counsel and with full knowledge of their significance and consequences, with the understanding that events giving rise to any defense or right waived may diminish, destroy or otherwise adversely affect rights which Borrowers otherwise may have against other Borrowers, the Lender Group or others, or against Collateral. If any of the waivers or consents herein are determined to be contrary

to any applicable law or public policy, such waivers and consents shall be effective to the maximum extent permitted by law.

12. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail (postage prepaid, return receipt requested), overnight courier, or telefacsimile to Borrower or to Foothill, as the case may be, at its address set forth below:

If to Borrowers: c/o ALLIED HEALTHCARE PRODUCTS, INC.
1720 Sublette Avenue
St. Louis, Missouri 63110
Attn: Barry F. Baker, Vice President Finance
Fax No. 314.771.0650

with copies to: DICKSTEIN SHAPIRO MORIN & OSKINSKY LLP
2101 L Street NW
Washington, D.C. 20037-0689
Attn: Allan B. Goldstein, Esq.
Fax No. 202.887.0689

If to Foothill: Foothill CAPITAL CORPORATION
11111 Santa Monica Boulevard
Suite 1500
Los Angeles, California 90025-3333
Attn: Business Finance Division Manager
Fax No. 310.478.9788

with copies to: BUCHALTER, NEMER, FIELDS & YOUNGER
601 South Figueroa, Suite 2400
Los Angeles, California 90017
Attn: Robert C. Colton, Esq.
Fax No. 213.896.0400

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 12, other than notices by Foothill in connection with Sections 9504 or 9505 of the Code, shall be deemed received on the earlier of the date of actual receipt or 3 days after the deposit thereof in the mail. Each Borrower acknowledges and agrees that notices sent by Foothill in connection with Sections 9504 or 9505 of the Code

shall be deemed sent when deposited in the mail or personally delivered, or, where permitted by law, transmitted by telefacsimile or other similar method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

THE VALIDITY OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (UNLESS EXPRESSLY PROVIDED TO THE CONTRARY IN AN ANOTHER LOAN DOCUMENT), THE CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT HEREOF AND THEREOF, AND THE RIGHTS OF THE PARTIES HERETO AND THERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR THEREUNDER OR RELATED HERETO OR THERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA OR, AT THE SOLE OPTION OF FOOTHILL, IN ANY OTHER COURT IN WHICH FOOTHILL SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. EACH BORROWER AND FOOTHILL WAIVE, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 13. EACH BORROWER AND FOOTHILL HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH BORROWER AND FOOTHILL REPRESENTS THAT THEY HAVE REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. DESTRUCTION OF BORROWERS' DOCUMENTS.

All documents, schedules, invoices, agings, or other papers delivered to Foothill may be destroyed or otherwise disposed of by Foothill four months after they are delivered to or received by Foothill, unless Borrowers request, in writing, the return of said documents, schedules, or other papers and makes arrangements, at Borrowers' expense, for their return.

15. GENERAL PROVISIONS.

15.1 Effectiveness. This Agreement shall be binding and deemed effective when executed by Borrowers and Foothill.

15.2 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that no Borrower may assign this Agreement or any rights or duties hereunder without Foothill's prior written consent and any prohibited assignment shall be absolutely void. No consent to an assignment by Foothill shall release the assigning Borrower from its Obligations. Foothill may assign this Agreement and its rights and duties hereunder and no consent or approval by Borrowers is required in connection with any such assignment. Foothill reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in Foothill's rights and benefits hereunder. In connection with any such assignment or participation, Foothill may disclose all documents and information which Foothill now or hereafter may have relating to any Borrower or any Borrower's business. To the extent that Foothill assigns its rights and obligations hereunder to a third Person, Foothill thereafter shall be released from such assigned obligations to Borrowers and such assignment shall effect a novation between Borrowers and such third Person.

15.3 Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

15.4 Interpretation. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Foothill or Borrowers, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

15.5 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

15.6 Amendments in Writing. This Agreement can only be amended by a writing signed by both Foothill and Borrowers.

15.7 Counterparts; Telefacsimile Execution. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an

executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

15.8 Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by any Borrower or any guarantor of the Obligations or the transfer by either or both of such parties to Foothill of any property of either or both of such parties should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if Foothill is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Foothill is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of Foothill related thereto, the liability of Borrowers or such guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

15.9 Integration. This Agreement, certain supplemental letters delivered concurrently herewith, together with the other Loan Documents, reflects the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in Los Angeles, California.

ALLIED HEALTHCARE PRODUCTS, INC.,
a Delaware corporation

/s/ Uma N. Aggarwal

By: _____
Title: President and Chief Executive Officer

B&F MEDICAL PRODUCTS, INC.,
a Delaware corporation

/s/ Uma N. Aggarwal

By: _____
Title: President and Chief Executive Officer

BEAR MEDICAL SYSTEMS, INC.,
a California corporation

/s/ Uma N. Aggarwal

By: _____
Title: President and Chief Executive Officer

HOSPITAL SYSTEMS, INC.,
a California corporation

/s/ Uma N. Aggarwal

By: _____
Title: President and Chief Executive Officer

LIFE SUPPORT PRODUCTS, INC.,
a California corporation

/s/ Uma N. Aggarwal

By: _____
Title: President and Chief Executive Officer

BICORE MONITORING SYSTEMS, INC.,
California corporation

/s/ Uma N. Aggarwal

By: _____
Title: President and Chief Executive Officer

FOOTHILL CAPITAL CORPORATION,
a California corporation

By: _____ /s/ Senior Vice President
Title: Senior Vice President

FACILITY NAME	ADDRESS	CITY	COUNTY	STATE AND ZIP CODE	FOOTHILL LIEN POSITION	NAME OF PRIOR LIENOR	AMOUNT OF PRIOR LIEN
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NOTE PURCHASE AGREEMENT

THIS NOTE PURCHASE AGREEMENT ("Agreement") is made and entered into effective as of this 7th day of August, 1997 by and among ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation (the "Company"), B&F MEDICAL PRODUCTS, INC., a Delaware corporation ("B&F"), BEAR MEDICAL SYSTEMS, INC., a California corporation ("Bear"), HOSPITAL SYSTEMS, INC., a California corporation ("Hospital Systems"), LIFE SUPPORT PRODUCTS, INC., a California corporation ("Life Support"), BICORE MONITORING SYSTEMS, INC., a California corporation ("Bicore"), each with their chief executive office located at 1720 Sublette Avenue, St. Louis, Missouri, 63110 (Company, B&F, Bear, Hospital Systems, Life Support and Bicore are collectively referred to herein as "Borrowers"), and each of the purchasers named on Schedule I to this Agreement (individually "Purchaser" and collectively "Purchasers").

RECITALS:

WHEREAS, the Borrowers desire to issue and sell \$5,000,000 aggregate principal amount of their 14.00% Promissory Notes;

WHEREAS, the Purchasers collectively desire to purchase the 14.00% Promissory Notes, subject to and on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual promises and covenants contained herein and such other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Borrowers and Purchasers hereby agree as follows:

1. AUTHORIZATION; PREPAYMENT AND CLOSING.

(a) Authorization of the Notes. The Borrowers shall authorize the issuance and sale of \$5,000,000 aggregate principal amount of 14.00% Promissory Notes (together with any subsequent Note or Notes issued in exchange therefor or otherwise in respect of the indebtedness evidenced by all or any portion of the principal balance of the Notes issued hereunder, the "Notes") to be dated the date hereof, to bear interest from such date at the rate of fourteen percent (14%) per annum payable monthly on the first Business Day of each calendar month (commencing on September 1, 1997) and at maturity, and to bear interest on overdue principal at the rate of twenty percent (20%) per annum after the date due (the "Default Rate"), whether by acceleration or otherwise, until paid, and expressed to mature six (6) months after the Closing Date (as defined in Section 1(c) below) (unless otherwise extended as permitted in Section 7(p) hereof) and to be substantially in the form attached hereto as Exhibit A. Interest shall be calculated on a daily basis (computed on the actual number of days elapsed over a year of 360 days), commencing on the date hereof (including the first day but excluding the last day).

(b) Prepayment. The Borrowers shall have the right to prepay the Notes, in whole or in part, at any time, without penalty or premium; provided, however, that: (i) upon the sale of any of the issued and outstanding stock or any of the assets of any Subsidiary in one or a series of related transactions; or (ii) upon the sale of any of the assets of any division of the Company (except with respect to sales of assets made in the ordinary course) in one or a series of related transactions; and/or (iii) in the event Company consummates any private placement of debt and/or equity, conducts any

public offering of debt and/or equity and/or otherwise causes a capital infusion to be made into Company or any Subsidiary, the proceeds generated therefrom shall be used first to repay Term Loan C issued under the Foothill Loan Agreement, and next to repay the Notes issued pursuant hereto. Any prepayment made hereunder shall be paid to the holders of each Note in the proportion that the unpaid principal amount of each Note (immediately prior to such prepayment) bears to the aggregate unpaid principal amount of all Notes.

(c) Commitment, Closing Date. Subject to the terms and conditions hereof and on the basis of the representations and warranties hereinafter set forth, the Borrowers agree to issue and sell to each Purchaser, and each Purchaser agrees to purchase from the Borrowers, Notes in the principal amount set forth opposite such Purchaser's name on Schedule I hereto at a price of 100% of the principal amount thereof at the Closing (as defined in Section 1(c) below).

(d) Closing, Delivery of the Notes. The purchase and sale of the Notes (the "Closing") shall take place at the offices of Greensfelder, Hemker & Gale, P.C., 10 South Broadway, Suite 2000, St. Louis, Missouri, 63102 at 10:00 a.m. on August 7, 1997 (the "Closing Date"), or at such other place or on such other date as may be mutually agreeable to the Borrowers and the Purchasers. At the Closing, the Borrowers will execute and deliver the Notes, evidencing the Borrowers' indebtedness to each Purchaser, together with the Warrants (as defined in Section 2 hereof). Simultaneously with the execution and delivery of the Notes, each Purchaser will deliver to the Borrowers the face amount thereof by a cashier's or certified check, or by wire transfer of immediately available funds to an account designated by the Borrowers in a written notice, which notice shall be received by each Purchaser at least one Business Day prior to the Closing Date, and the Borrowers shall pay the Commitment Fee set forth opposite each Purchaser's name on Schedule I hereto to each Purchaser as contemplated by and pursuant to Section 7(n) below, together with the costs and expenses of Purchaser's counsel as contemplated by and pursuant to Section 3(f) below.

(e) Several Commitments. The obligations of each Purchaser

hereunder shall be several and not joint and no Purchaser shall be liable or responsible for the acts or defaults by any other Purchaser.

2. WARRANTS. In consideration of the purchase of Notes hereunder, the Company agrees to issue warrants to each Purchaser to purchase that number of shares of the Company's Common Stock, par value \$.01 per share, set forth opposite each such Purchaser's name on Schedule I hereto, at the exercise price and subject to the terms and conditions more particularly set forth in the Warrant attached hereto as Exhibit B and incorporated herein by this reference (collectively the "Warrants").

3. CONDITIONS OF THE PURCHASER'S OBLIGATION AT THE CLOSING. The obligation of each Purchaser to purchase and pay for the Notes at the Closing is subject to the satisfaction of each of the following conditions as of or prior to the Closing Date:

(a) Transaction Documents. The Purchasers shall have received the following documents, each duly executed and delivered by all parties thereto, and as applicable, sealed, attested, acknowledged, certified, authenticated and otherwise satisfactory in form and content to the Purchasers and their counsel, in their sole discretion (collectively, the "Transaction Documents"):

(i) Agreement. This Agreement;

(ii) Notes. The Notes in substantially the form as Exhibit A attached hereto;

(iii) Warrants. The Warrants in substantially the form as Exhibit B attached hereto;

(iv) Certificate of Borrowers' Secretary. A certificate executed by the Secretary of Borrowers whereby such Secretary affirms that attached to such certificate is an accurate copy of Borrowers' board resolutions authorizing the sale of the Notes under this Agreement and all other matters set forth in or contemplated by this Agreement and the other Transaction Documents; and

(v) Other Items. Such other agreements, documents and assurances as the Purchasers may reasonably request in connection with the transactions described in or contemplated by the Transaction Documents.

(b) Foothill Capital Closing. The Borrowers shall have consummated the transactions contemplated by that certain Loan and Security Agreement of even date herewith ("Foothill Loan Agreement"), among Borrowers and Foothill Capital Corporation, a California corporation ("Foothill").

(c) Subordination Agreement. The Purchasers shall have each received a duly executed and delivered Subordination Agreement of even date herewith by and between Foothill and each individual Purchaser.

(d) Representations and Warranties. The representations and warranties of Borrowers contained herein and in the Foothill Loan Agreement shall be true and correct in all material respects at and as of the Closing Date as though then made.

(e) Events of Default. No default or event of default under the Foothill Loan Agreement shall exist as of the Closing Date, nor shall any default or event of default under the Foothill Loan Agreement result from the purchase and sale of the Notes under this Agreement.

(f) Payment of Fees. Borrowers shall have paid to each Purchaser the Commitment Fee set forth opposite each Purchaser's name on Schedule I hereto, and all other fees, costs and expenses incurred by Purchasers in connection with the negotiation, preparation and execution of the Transaction Documents, including, without limitation, the fees and expenses of Greensfelder, Hemker & Gale, P.C., counsel to Purchasers.

4. REPRESENTATIONS AND WARRANTIES. The Borrowers hereby jointly and severally represent, warrant and covenant to each Purchaser as follows:

(a) Organization and Existence. (i) Company and B&F are corporations duly incorporated, validly existing and in good standing under the laws of Delaware, (ii) Bear, Hospital

Systems, Life Support and Bicore are corporations duly incorporated, validly existing and in good standing under the laws of California, (iii) each Borrower is in good standing in all other jurisdictions in which it is required to be qualified to do business as a foreign corporation, and (iv) each Borrower has obtained all licenses and permits and has filed all registrations necessary to the operation of its business.

(b) Authorization; Due Execution. Each Borrower is duly authorized to execute and perform every Transaction Document to which it is a party, and each Borrower is duly authorized to sell the Notes hereunder. This Agreement and the other Transaction Documents have been duly authorized by all requisite corporate action. Each Transaction Document has been duly executed by a person duly authorized to do so.

(c) Approval of Governmental Bodies. No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority or regulatory body is required for the due execution, delivery and performance by each Borrower of the Transaction Documents or the exercise by the Purchasers of their respective rights thereunder.

(d) Enforceability of Obligations. The Transaction Documents are the legal, valid and binding obligation of each Borrower enforceable against each in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the enforceability of creditors' rights generally and subject to the discretion of courts in applying equitable remedies.

(e) Legal Restraints. The execution, delivery and performance by each Borrower of the Transaction Documents to which it is a party will not violate or constitute a default under its articles of incorporation or by-laws, any Material Agreement (including, without limitation, the Foothill Loan Agreement), or any Material Law.

5. NEGATIVE COVENANTS. So long as any Obligations remain unpaid, unless otherwise consented to in writing by Purchasers holding at least seventy-five percent (75%) of the aggregate principal amount the Notes issued hereunder, Borrowers jointly and severally covenant and agree that, without the prior written consent of the Purchasers, no Borrower shall:

(a) Liens and Security Interests. Create or suffer to exist any Lien upon or with respect to any of its assets or properties, whether now owned or hereafter acquired, except for Permitted Liens (as defined in the Foothill Loan Agreement); and

(b) Conflicting Agreements. Enter into any agreement any term or condition of which conflicts with any provision of this Agreement or the other Transaction Documents.

6. DEFAULT.

(a) Events of Default . Each of the following events shall constitute an Event of Default hereunder:

(i) Borrowers (or any one of them) shall fail to pay any principal of or interest on any of the Notes when due; or

(ii) Borrowers (or any one of them) shall fail to make the mandatory prepayment required under Section 1(b) of this Agreement or fail to observe or perform any other agreement or covenant contained herein; or

(iii) Borrowers (or any one of them) shall fail to pay any other monetary Obligations within five (5) days after notice thereof is given to the Borrowers (or any of them); or

(iv) Any representation or warranty made or furnished by any of the Borrowers (or their respective officers) in connection with this Agreement or the other Transaction Documents shall prove to have been incorrect or misleading in any material respect when made, or any such representation or warranty shall become incorrect or misleading in any material respect; or

(v) The Borrowers (or any one of them) shall: (i) fail to pay any Debt (other than the Debt described in Sections 6(a)(i) and 6(a)(ii) above) of the Borrowers, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after any applicable grace period, specified in the agreement or instrument relating to such Debt; or (ii) fail to perform or observe any covenant or condition on its part to be performed or observed under any agreement or instrument relating to any such Debt when required to be performed or observed, and such failure shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such failure to pay or perform or observe is to accelerate or to permit the acceleration of the maturity of such Debt; or any such Debt shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled required prepayment) prior to the stated maturity thereof; or

(vi) Any Borrower shall cease to be solvent or shall suffer the appointment of a receiver, trustee, custodian or similar fiduciary, or shall make an assignment for the benefit of creditors, or any petition for an order for relief shall be filed by or against any Borrower under the federal bankruptcy code or any similar state insolvency statute (if against any Borrower, the continuation of such proceeding for more than sixty (60) days), or any Borrower shall make any offer of settlement, extension or composition to their respective unsecured creditors generally; or

(vii) There shall occur a cessation of a material part of the business of any Borrower for a period which has a Material Adverse Effect on such Borrowers' capacity to continue its business on a profitable basis; or any Borrower shall suffer the loss or revocation of any license or permit now held or hereafter acquired by such Borrower which is necessary to the continued or lawful operation of its business; or any Borrower shall be enjoined, restrained or in any way prevented by court, governmental or administrative order from conducting all or any material part of its business affairs; or any material lease or agreement pursuant to which any Borrower leases, uses or occupies any property shall be canceled or terminated prior to the expiration of its stated term; or

(viii) Any Borrower shall challenge or contest in any action, suit or proceeding the validity or enforceability of this Agreement or any of the other Transaction Documents or the legality or enforceability of any of the Obligations thereunder; or

(ix) The occurrence of any event or circumstance in which Purchasers holding at least 75% of the aggregate principal balance of the Notes reasonably believe has or may have a Material Adverse Effect on any Borrower.

(b) Acceleration; Notice to Holders . Upon the occurrence of an Event of Default, any Holder may declare the outstanding principal balance of the Notes, all interest thereon and all other Obligations to be forthwith due and payable, whereupon the outstanding principal balance of each Note, all such interest thereon and all such other Obligations shall become and be forthwith due and payable, without presentment, protest or further notice or demand of any kind, all of which are hereby expressly waived by the Borrowers. When any Event of Default described in Section 6(a) above has occurred, or if any Holder or the holder of any other evidence of indebtedness of any of the Borrowers gives any notice or takes any other action with respect to a claimed default, the Borrowers jointly and severally agree to give notice with three (3) Business Days of such event to all Holders.

7. MISCELLANEOUS.

(a) Definitions. Unless the context otherwise requires, the terms hereinafter set forth when used herein shall have the following meanings and the following definitions shall be equally applicable to both the singular and plural forms of any of the terms herein defined:

"Business Day" shall mean any day, other than a Saturday or Sunday, on which the New York Stock Exchange is not required to be closed.

"Debt" shall mean with respect to any Borrower, without duplication, all indebtedness, liabilities and obligations of such Borrower which in accordance with GAAP are required to be classified upon a balance sheet of such Borrower as liabilities of such Borrower, and in any event shall include all: (i) obligations of such Borrower for borrowed money or which have been incurred connection with the purchase or other acquisition of assets, (ii) obligations secured by any Lien on, or payable out of the proceeds of or production from, any assets owned by any Borrower, (iii) obligations under capital leases which shall have been or should be, in accordance with GAAP, recorded as capital leases, (iv) indebtedness, liabilities and obligations of third parties, including joint ventures and partnerships, of which a Borrower is a venturer or general partner, recourse to which may be had against such Borrower, (v) obligations created or arising under any conditional sale or other title retention agreement with respect to assets acquired by a Borrower, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of such asset, (vi) indebtedness, liabilities and obligations of any Borrower under guarantees, (vii) unpaid reimbursement obligations of a Borrower with respect to letters of credit issued for the account of any Borrower, and (viii) all other obligations or items which, in accordance with GAAP, would be shown on the liability side of a balance sheet as of the date of the incurrence thereof.

"Governmental Authority" shall mean the federal government of the United States; the government of any foreign country that is recognized by the United States or is a member of the United Nations; any state of the United States; any local government or municipality within the territory or under the jurisdiction of any of the foregoing; any department, agency, division or

instrumentality of any of the foregoing; and any court whose orders or judgments are enforceable by or within the territory of any of the foregoing.

"Holder" shall mean any Person which is, at the time of reference, the registered Holder of any Note.

"Lien" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance, lien (statutory or other), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing and the filing of any financing statement under the Uniform Commercial Code as adopted and in force in the State of Missouri or comparable laws of any jurisdiction.

"Material Adverse Effect" shall mean, with respect to any event or occurrence of whatever nature (including any adverse determination in any litigation, arbitration, investigation or proceeding), a material adverse effect on (i) the business, operations, revenues, financial condition, property, or business prospects of any Borrower (ii) the ability of any Borrower to timely pay or perform its Obligations generally, including, the ability of any Borrower to pay or perform any of its Obligations to the Purchasers, or (iii) the rights and remedies of the Purchasers under this Agreement or any other Transaction Document.

"Material Agreement" shall mean any contract, note, deed or other agreement or undertaking or any security to which a Borrower is a party or by which a Borrower is bound which, if violated or breached, would have a Material Adverse Effect on such Borrower.

"Material Law" shall mean any law whose violation by a Borrower would have a Material Adverse Effect.

"Obligations" shall mean all loans and all other advances, debts, liabilities, obligations, covenants and duties owing, arising, due or payable from the Borrowers to the Purchasers of any kind or nature, present or future, joint and/or several whether or not evidenced by any note, letter of credit, guaranty or other instrument, whether arising under this Agreement or any of the other Transaction Documents or otherwise, and whether direct or indirect (including those acquired by assignment), absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising and however acquired, and all replacements, extensions, amendments and other modifications in respect of any of the foregoing. The term includes, without limitation, all interest, charges, expenses, fees, attorneys' fees and any other sums chargeable to the Borrowers under any of the Transaction Documents.

"Person" shall mean an individual, partnership, corporation, trust, limited liability company or unincorporated organization, and any Governmental Authority.

"Subsidiary" of a Person means a corporation, partnership, limited liability company or other entity in which that Person directly or indirectly owns or controls the shares of stock or other ownership interests having ordinary voting power to elect a majority of the board of

directors (or appoint other comparable managers) of such corporation, partnership, limited liability company or other entity.

(b) Notices. Except as otherwise provided herein, all notices, requests and demands to or upon a party hereto to be effective shall be in writing and shall be personally delivered, mailed by certified or registered mail, return receipt requested, sent prepaid by reliable courier or sent by facsimile transmission. Unless otherwise expressly provided herein, notices shall be deemed to have been validly given when delivered against receipt; or, in the case of mailing, three (3) Business Days after deposit in the mail in the continental United States, postage prepaid; or, in the case of reliable courier, on the Business Day after the courier accepts delivery of such item for Business Day delivery; or in the case of facsimile transmission, when sent against confirmation of receipt prior to 5:00 p.m. local time at the recipient's office, in each case addressed and/or telecopied to at the address or telecopy number set forth on the signature pages hereof, or to such other address or telecopy number as each party may designate for itself by like notice in accordance with this Section 7(b).

(c) Indemnity. The Borrowers hereby jointly and severally agree to indemnify the Purchasers and their agents and hold Purchasers and other indemnities harmless from and against any liability, loss, expense, damage, suit, action or proceeding ever suffered or incurred by the Purchasers or such other indemnities as the result of any Borrowers' failure to observe, perform or discharge any of its respective duties under any of the Transaction Documents or any misrepresentation made by or on behalf of Borrowers under any of the Transaction Documents. The joint and several obligation of the Borrowers under this Section 7(c) shall survive the payment in full of the Obligations and the termination of this Agreement.

(d) Modification of Agreement. This Agreement may not be modified, altered or amended, except by an agreement in writing signed by each of the Borrowers and each of the Purchasers. No Borrower may sell, assign or transfer any interest in this Agreement and any of the other Transaction Documents, or any portion thereof, including, without limitation, any of its rights, title, interests, remedies, powers, and duties hereunder or thereunder. Each Borrower hereby consents to any Purchaser's sale, assignment, transfer or other disposition, at any time or times thereafter, of this Agreement and any of the other Transaction Documents, or of any portion hereof or thereof, including, without limitation, any Purchaser's rights, title, interests, remedies, powers and duties hereunder or thereunder.

(e) Survival of Representations and Warranties. All representations and warranties contained herein or made in writing by any party in connection herewith shall survive the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, regardless of any investigation made by the Purchasers or on their behalf.

(f) Successors and Assigns. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not. In addition, and whether or not any express assignment has been made, the provisions of this Agreement which are for the Purchaser's benefit as a purchaser or Holder are also for the benefit of, and enforceable by, any subsequent Holder.

(g) Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

(h) Counterparts. This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together shall constitute one and the same Agreement.

(i) Descriptive Headings; Interpretation. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a Section of this Agreement. The use of the word "including" in this Agreement shall be by way of example rather than by limitation.

(j) Governing Law. All questions concerning the construction, validity and interpretation of this Agreement and the exhibits and schedules hereto shall be governed by the internal law, and not the law of conflicts, of the State of Missouri.

(k) Complete Agreement. This Agreement, the Transaction Documents and the other documents delivered or to be delivered pursuant hereto or thereto embody the complete agreement and understanding among the parties and supersede and preempt any prior understandings, agreements or representations by or among the parties, written or oral, which may have related to the subject matter hereof or thereof in any way.

(l) Representation. Because all parties hereto have been represented by counsel in connection with the negotiation and preparation of this Agreement, this Agreement shall be construed without regard to any presumption against the party drafting the same.

(m) Multiple Borrowers.

(i) Each Borrower agrees that it is jointly and severally, directly, and primarily liable to the Purchasers for payment in full of the Obligations and that such liability is independent of the duties, obligations, and liability of each and all of the other joint and several Borrowers. The Purchasers may bring a separate action or actions on the Obligations against each, any, or all of the Borrowers, whether action is brought against any other or all of such Borrowers or any one or more of the Borrowers is or is not joined therein.

(ii) Each Borrower agree that any release that may be given by any Purchaser to any one or more of the Borrowers shall not release any other Borrowers from its obligations hereunder.

(iii) Each Borrower hereby waives any right to assert against any Purchaser any right of setoff or other claim that such Borrower individually may now or any time hereafter have against another Borrower or in any manner or way whatsoever, and hereby waives any right of subrogation against any other Borrowers.

(iv) Any and all present and future debts and other obligations of any Borrower to any other Borrower are hereby subordinated to the full payment and performance of the Obligations; provided, however, such debt and other obligations may be incurred and repaid, subject to the terms of this Agreement, as long as no Event of Default shall have occurred and not have been waived.

(v) Each Borrower is presently informed as to the financial condition of each of the other Borrowers and of all other circumstances that a diligent inquiry would reveal and that bear upon the risk of nonpayment of the Obligations. Each Borrower hereby waives any and all rights it may have to require any Purchaser to disclose to such Borrowers any information that any such Purchaser may now or hereafter acquire concerning the condition or circumstances of any of the Borrowers.

(vi) Except as expressly provided herein, each Borrower waives all rights to notices of default, existence, creation, or incurring of new or additional indebtedness and all other notices of formalities to which such Borrower may, as a joint and several Borrower hereunder, be entitled.

(n) Commitment Fee. Simultaneously with consummation of the purchase and sale of the Notes as contemplated hereunder, the Borrowers shall pay to each Purchaser a commitment fee equal to three percent (3%) of the principal amount of the Note set forth opposite each Purchaser's name on Schedule I hereto in consideration of each Purchaser's consummation thereof ("Commitment Fee"). The Commitment Fee shall be fully earned and non-refundable. The Commitment Fee shall be payable by cashier's or certified check, or by wire transfer of immediately available funds to an account designated by each Purchaser in a written notice, which notice shall be received by the Borrowers at least one Business Day prior to the Closing Date.

(o) Reimbursement of Expenses . If, at any time or times prior or subsequent to the date hereof, regardless of whether or not an Event of Default then exists or any of the transactions contemplated hereunder are concluded, the Purchasers employ counsel for advice or other representation, or incur legal expenses or other costs or out-of-pocket expenses in connection with: (i) the negotiation and preparation of this Agreement and any of the other Transaction Documents, any amendment of or modification of this Agreement or any of the other Transaction Documents; or (ii) any litigation, contest, dispute, suit, proceeding or action (whether instituted by a Purchaser, any Borrower or any other Person) in any way relating to this Agreement or any of the other Transaction Documents or any Borrowers' affairs; or (iii) any bankruptcy or other insolvency proceeding, contest, dispute, suit, litigation or action (whether instituted by a Purchaser, any Borrower is commenced by or against any Borrower under the Federal Bankruptcy Code and/or any similar state insolvency statute; then, in any such event, the attorneys' fees arising from such services and all expenses, costs, charges and other fees of such counsel or of each Purchaser or relating to any of the events or actions described in this Section shall be jointly and severally payable, on demand, by Borrowers to such Purchaser, and shall be additional Obligations hereunder.

(p) Extension of Note. Upon the expressed maturity of the Notes (i.e., six (6) months after the Closing Date), the Borrowers may elect to extend the maturity of the Notes for an additional thirty (30) days thereafter as long as no Event of Default has occurred and is continuing and provided the Borrowers pay to each Purchaser an extension fee equal to one percent (1%) of the principal amount of the Note set forth opposite each Purchaser's name on Schedule I hereto by cashier's or certified check.

(q) Incorporation by Reference. All of the terms of the other Transaction Documents are incorporated in and made a part of this Agreement by reference; provided, however, that to the extent of any inconsistency between this Agreement and such other Transaction Documents, this Agreement shall govern.

(r) SUBMISSION TO JURISDICTION; WAIVER OF JURY TRIAL.

(i) TO THE FULL EXTENT PERMITTED BY LAW, EACH BORROWER HEREBY KNOWINGLY, INTENTIONALLY AND VOLUNTARILY, WITH AND UPON ADVICE OF COMPETENT COUNSEL, (A) SUBMITS TO PERSONAL JURISDICTION IN THE STATE OF MISSOURI OVER ANY SUIT, ACTION OR PROCEEDING BY ANY PERSON ARISING FROM OR RELATING TO THIS AGREEMENT, (B) AGREES THAT ANY SUCH ACTION, SUIT OR PROCEEDING MAY BE BROUGHT IN ANY STATE COURT OF COMPETENT JURISDICTION SITTING IN ST. LOUIS COUNTY OR ANY FEDERAL COURT OF COMPETENT JURISDICTION SITTING IN THE EASTERN DISTRICT OF THE STATE OF MISSOURI, (C) SUBMITS TO THE JURISDICTION OF SUCH COURTS, AND (D) TO THE FULLEST EXTENT PERMITTED BY LAW, AGREES THAT IT WILL NOT BRING ANY ACTION, SUIT OR PROCEEDING IN ANY FORUM OTHER THAN THE FOREGOING FORUMS (BUT NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY PURCHASER TO BRING ANY ACTION, SUIT OR PROCEEDING IN ANY OTHER FORUM). EACH BORROWER HEREBY FURTHER CONSENTS AND AGREES TO SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER LEGAL PROCESS IN ANY SUCH SUIT, ACTION OR OTHER LEGAL PROCEEDING BY REGISTERED OR CERTIFIED U.S. MAIL, POSTAGE PREPAID, TO THE BORROWERS AT THE ADDRESS FOR NOTICES DESCRIBED IN

SECTION 7(b) HEREOF, AND CONSENT AND AGREE THAT SUCH SERVICE SHALL CONSTITUTE IN EVERY RESPECT VALID AND EFFECTIVE SERVICE (BUT NOTHING HEREIN SHALL AFFECT THE VALIDITY OR EFFECTIVENESS OF PROCESS SERVED IN ANY OTHER MANNER PERMITTED BY LAW.)

(ii) TO THE FULL EXTENT PERMITTED BY LAW, EACH BORROWER HEREBY KNOWINGLY, INTENTIONALLY AND VOLUNTARILY, WITH AND UPON THE ADVICE OF COMPETENT COUNSEL, WAIVES, RELINQUISHES AND FOREVER FORGOES THE RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO THIS AGREEMENT OR ANY CONDUCT, ACT OR OMISSION OF ANY PURCHASER OR BORROWERS, OR ANY OF THEIR RESPECTIVE DIRECTORS, OFFICERS, PARTNERS, MEMBERS, EMPLOYEES, AGENTS OR ATTORNEYS, OR ANY OTHER PERSONS AFFILIATED WITH ANY PURCHASER OR BORROWERS, IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE.

(s) Facsimile Signatures. A signature of a party to this Agreement sent by facsimile or other electronic transmission shall be deemed to constitute an original and fully effective signature of such party.

(t) Statutory Notice. The following notice is given pursuant to Section 432.045 of the Missouri Revised Statutes; nothing contained in such notice shall be deemed to limit or modify the provisions of the Loan Documents.

ORAL AGREEMENTS OR COMMITMENTS TO LEND MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT INCLUDING PROMISES TO EXTEND OR RENEW SUCH DEBT ARE NOT ENFORCEABLE. TO PROTECT YOU (BORROWERS) AND US (PURCHASERS) FROM MISUNDERSTANDING OR DISAPPOINTMENT, ANY AGREEMENTS WE REACH COVERING SUCH MATTERS ARE CONTAINED IN THIS WRITING, WHICH IS THE COMPLETE AND EXCLUSIVE STATEMENT OF THE AGREEMENT BETWEEN US, EXCEPT AS WE MAY LATER AGREE IN WRITING TO MODIFY IT.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered as of the date first written above.

("BORROWERS")
ALLIED HEALTHCARE
PRODUCTS, INC.

("PURCHASERS")
WOODBOURNE PARTNERS, L.P., a
Missouri limited partnership

/s/ Barry F. Baker
By: _____
Name: _____
Title: _____

By: _____
CLAYTON MANAGEMENT COMPANY, its
general partner

B&F MEDICAL PRODUCTS, INC.

/s/ Barry F. Baker
By: _____
Name: _____
Title: _____

/s/ John D. Weil
By: _____
Name: John D. Weil
Title: President

BEAR MEDICAL SYSTEMS, INC.

/s/ Barry F. Baker
By: _____
Name: _____
Title: _____

Notice Address:
Clayton Management Company
200 North Broadway - Suite 825
St. Louis, MO 63102

HOSPITAL SYSTEMS, INC.

/s/ Barry F. Baker
By: _____
Name: _____
Title: _____

By: /s/ Sam Fox

Sam Fox

LIFE SUPPORT PRODUCTS, INC.

/s/ Barry F. Baker
By: _____
Name: _____
Title: _____

By: /s/ Donald E. Nickelson

Donald E. Nickelson

By: /s/ Dennis W. Sheehan

Dennis W. Sheehan

Notice Address for Sam Fox, Donald
E. Nickelson and Dennis W. Sheehan:
Sam Hammacher
Harbour Group, Ltd.
7701 Forsyth
Clayton, Missouri 63105

With a copy to:
Greensfelder, Hemker & Gale, P.C.
10 South Broadway, Suite 2000
St. Louis, Missouri 63102
Attn: Joseph D. Lehrer, Esq.

BICORE MONITORING SYSTEMS, INC.

/s/ Barry F. Baker

By: _____
Name: _____
Title: _____

Notice Address for all Borrowers:
1720 Sublette Avenue
St. Louis, Missouri 63110

With a copy to:
Dickstein, Shapiro, Morin &
Oshinsky, LLP
2101 L. Street NW
Washington, DC 20037
Attn: Allen B. Goldstein, Esq.

SCHEDULE I
Purchasers

Name of Purchaser	Principal Amount of Note	Commitment Fee	Warrants
Woodbourne Partners, L.P.	\$2,000,000.00	\$60,000.00	25,000
Sam Fox	\$2,750,000.00	\$82,500.00(1)	34,376
Donald E. Nickelson	\$ 125,000.00	\$ 3,750.00	1,562
Dennis W. Sheehan	\$ 125,000.00	\$ 3,750.00	1,562

- - - - -
(1) The Commitment Fee was waived by the named Purchaser.

THIS NOTE IS SUBJECT TO THE TERMS AND CONDITIONS OF THAT CERTAIN SUBORDINATION AGREEMENT DATED AS OF AUGUST 7, 1997, BY AND BETWEEN THE LENDER NAMED BELOW AND FOOTHILL CAPITAL CORPORATION.

PROMISSORY NOTE

\$2,000,000.00

St. Louis, Missouri
August 7, 1997

FOR VALUE RECEIVED, the undersigned, ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation, B&F MEDICAL PRODUCTS, INC., a Delaware corporation, BEAR MEDICAL SYSTEMS, INC., a California corporation, HOSPITAL SYSTEMS, INC., a California corporation, LIFE SUPPORT PRODUCTS, INC., a California corporation, BICORE MONITORING SYSTEMS, INC., a California corporation, each with their chief executive office located at 1720 Sublette Avenue, St. Louis, Missouri, 63110 (collectively "Borrowers") HEREBY JOINTLY AND SEVERALLY PROMISE TO PAY to the order of WOODBOURNE PARTNERS, L.P., a Missouri limited partnership (the "Lender") in lawful money of the United States of America, the principal sum of TWO MILLION AND NO/100 DOLLARS (\$2,000,000.00), together with interest thereon from the date hereof at a fixed rate per annum equal to fourteen percent (14%), compounded semi-annually. Principal and interest shall be due and payable as follows:

(a) Interest shall be due on the first Business Day of each month (for the immediately preceding month), computed through the last calendar day of the preceding month, and on the Maturity Date. Interest shall be calculated on a daily basis (computed on the actual number of days elapsed over a year of 360 days), commencing on the date hereof (including the first day but excluding the last day); and

(b) Principal shall be due and payable on the earlier of: (a) February 7, 1998 or thirty (30) days thereafter if extended in accordance with the Purchase Agreement (the "Maturity Date"), or (b) the occurrence of an Event of Default (as defined in the hereinafter defined Purchase Agreement).

This Promissory Note ("Note") is the Promissory Note referred to in, and is issued under the terms of, and pursuant to, the provisions of that certain Note Purchase Agreement between the Lender and the Borrowers dated as of August 7, 1997 (as the same may be amended, restated, extended, replaced or otherwise modified from time to time, the "Purchase Agreement") and is entitled to all of the benefits and security of the Purchase Agreement. All of the terms, covenants and conditions of the Purchase Agreement and of the other instruments evidencing or securing the indebtedness hereunder are hereby made a part of this Note and incorporated herein in full by this reference. All capitalized terms used herein, unless otherwise specifically defined in this Note, shall have the same meanings as given them in the Purchase Agreement.

If any payment of principal or interest due on this Note is payable on a day other than a Business Day, then such payment shall be made on the next Business Day.

If any Event of Default shall occur and shall not have been waived in a writing given by the Lender to the Borrowers, then the outstanding principal balance of this Note shall bear interest from and after the occurrence of such Event of Default at the Default Rate until the principal balance of this Note is paid in full.

Borrowers shall prepay this Note at the time and in the manner set forth in the Purchase Agreement. Borrowers may wholly prepay this Note and make partial prepayments hereon in whole multiples of \$1,000 from time to time, without penalty or premium, but only if (i) the Borrowers give Lender written notice of their intention to make such prepayment at least one Business Day prior to tendering the prepayment, and (ii) Borrowers pay any accrued and unpaid interest on the Note to the date of such payment.

The earlier of the Maturity Date or the occurrence of an Event of Default under the Purchase Agreement shall constitute an event of default under this Note and shall entitle the Lender, at its option, to declare the then outstanding principal balance and accrued interest thereon to be, and the same shall thereupon become, immediately due and payable without notice to or demand upon the Borrowers, all of which the Borrowers hereby expressly waive.

Time is of the essence of this Note. To the fullest extent permitted by applicable law, the Borrowers, for themselves and their respective successors and assigns, expressly waive presentment, demand, protest, notice of dishonor, notice of non-payment, notice of maturity, notice of protest, presentment for the purpose of accelerating maturity, diligence in collection, and the benefit of any exemption or insolvency laws.

Wherever possible each provision of this Note shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or remaining provisions of this Note. No delay or failure on the part of the Lender in the exercise of any right or remedy hereunder shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or

partial exercise by the Lender of any right or remedy preclude any other right or remedy. The Lender, at its option, may enforce its rights against any collateral securing this Note without enforcing its rights against the Borrowers, any guarantor of the indebtedness evidenced hereby or any other property or indebtedness due or to become due to the Borrowers. The Borrowers agree that, without releasing or impairing any Borrowers' liability hereunder, the Lender may at any time release, surrender, substitute or exchange any collateral securing this Note and may at any time release any party primarily or secondarily liable for the indebtedness evidenced by this Note. No amendment, modification or waiver of any provision of this Note, nor consent to any departure by any Borrower herefrom, shall be effective unless the same shall be in writing signed by an authorized officer of Lender, and then only in the specific instance and for the purpose for which given.

In the event that any payment of any principal or interest due hereunder shall not be paid when due, whether by reason of acceleration, termination or otherwise, and this Note is placed in the hands of an attorney or attorneys for collection or for foreclosure of any agreement, document or instrument securing payment hereof or for representation of Lender in connection with bankruptcy or insolvency proceedings relating hereto, each Borrower jointly and severally promises to pay, in addition to all other amounts otherwise due hereon, all costs and expenses of such collection, foreclosure and representation, including, without limitation, reasonable

attorneys' fees, expert witness fees and all other costs and expenses paid or incurred by Lender in connection therewith (whether or not litigation shall be commenced in aid thereof).

All notices required to be given or which may be given in connection with this Note shall be given in the manner required for notices under the Purchase Agreement.

This Note is governed by and shall be interpreted in accordance with the internal laws of the State of Missouri, without regard to conflict of law rules.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, each Borrower has caused this Note to be executed and delivered by its duly authorized representative as of the date first above written.

ALLIED HEALTHCARE PRODUCTS, INC.

/s/ Barry F. Baker
By: _____
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

B&F MEDICAL PRODUCTS, INC.

/s/ Barry F. Baker
By: _____
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

BEAR MEDICAL SYSTEMS, INC.

/s/ Barry F. Baker
By: _____
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

HOSPITAL SYSTEMS, INC.

/s/ Barry F. Baker
By: _____
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

LIFE SUPPORT PRODUCTS, INC.

/s/ Barry F. Baker

By: _____
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

BICORE MONITORING SYSTEMS, INC.

/s/ Barry F. Baker

By: _____
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

THIS NOTE IS SUBJECT TO THE TERMS AND CONDITIONS OF THAT CERTAIN SUBORDINATION AGREEMENT DATED AS OF AUGUST 7, 1997, BY AND BETWEEN THE LENDER NAMED BELOW AND FOOTHILL CAPITAL CORPORATION.

PROMISSORY NOTE

\$125,000.00

St. Louis, Missouri
August 7, 1997

FOR VALUE RECEIVED, the undersigned, ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation, B&F MEDICAL PRODUCTS, INC., a Delaware corporation, BEAR MEDICAL SYSTEMS, INC., a California corporation, HOSPITAL SYSTEMS, INC., a California corporation, LIFE SUPPORT PRODUCTS, INC., a California corporation, BICORE MONITORING SYSTEMS, INC., a California corporation, each with their chief executive office located at 1720 Sublette Avenue, St. Louis, Missouri, 63110 (collectively "Borrowers") HEREBY JOINTLY AND SEVERALLY PROMISE TO PAY to the order of DONALD E. NICKELSON (the "Lender") in lawful money of the United States of America, the principal sum of ONE HUNDRED TWENTY-FIVE THOUSAND AND NO/100 DOLLARS (\$125,000.00), together with interest thereon from the date hereof at a fixed rate per annum equal to fourteen percent (14%), compounded semi-annually. Principal and interest shall be due and payable as follows:

(a) Interest shall be due on the first Business Day of each month (for the immediately preceding month), computed through the last calendar day of the preceding month, and on the Maturity Date. Interest shall be calculated on a daily basis (computed on the actual number of days elapsed over a year of 360 days), commencing on the date hereof (including the first day but excluding the last day); and

(b) Principal shall be due and payable on the earlier of: (a) February 7, 1998 or thirty (30) days thereafter if extended in accordance with the Purchase Agreement (the "Maturity Date"), or (b) the occurrence of an Event of Default (as defined in the hereinafter defined Purchase Agreement).

This Promissory Note ("Note") is the Promissory Note referred to in, and is issued under the terms of, and pursuant to, the provisions of that certain Note Purchase Agreement between the Lender and the Borrowers dated as of August 7, 1997 (as the same may be amended, restated, extended, replaced or otherwise modified from time to time, the "Purchase Agreement") and is entitled to all of the benefits and security of the Purchase Agreement. All of the terms, covenants and conditions of the Purchase Agreement and of the other instruments evidencing or securing the indebtedness hereunder are hereby made a part of this Note and incorporated herein in full by this reference. All capitalized terms used herein, unless otherwise specifically defined in this Note, shall have the same meanings as given them in the Purchase Agreement.

If any payment of principal or interest due on this Note is payable on a day other than a Business Day, then such payment shall be made on the next Business Day.

If any Event of Default shall occur and shall not have been waived in a writing given by the Lender to the Borrowers, then the outstanding principal balance of this Note shall bear interest from and after the occurrence of such Event of Default at the Default Rate until the principal balance of this Note is paid in full.

Borrowers shall prepay this Note at the time and in the manner set forth in the Purchase Agreement. Borrowers may wholly prepay this Note and make partial prepayments hereon in whole multiples of \$1,000 from time to time, without penalty or premium, but only if (i) the Borrowers give Lender written notice of their intention to make such prepayment at least one Business Day prior to tendering the prepayment, and (ii) Borrowers pay any accrued and unpaid interest on the Note to the date of such payment.

The earlier of the Maturity Date or the occurrence of an Event of Default under the Purchase Agreement shall constitute an event of default under this Note and shall entitle the Lender, at its option, to declare the then outstanding principal balance and accrued interest thereon to be, and the same shall thereupon become, immediately due and payable without notice to or demand upon the Borrowers, all of which the Borrowers hereby expressly waive.

Time is of the essence of this Note. To the fullest extent permitted by applicable law, the Borrowers, for themselves and their respective successors and assigns, expressly waive presentment, demand, protest, notice of dishonor, notice of non-payment, notice of maturity, notice of protest, presentment for the purpose of accelerating maturity, diligence in collection, and the benefit of any exemption or insolvency laws.

Wherever possible each provision of this Note shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or remaining provisions of this Note. No delay or failure on the part of the Lender in the exercise of any right or remedy hereunder shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or partial exercise by the Lender of any right or remedy preclude any other right or remedy. The Lender, at its option, may enforce its rights against

any collateral securing this Note without enforcing its rights against the Borrowers, any guarantor of the indebtedness evidenced hereby or any other property or indebtedness due or to become due to the Borrowers. The Borrowers agree that, without releasing or impairing any Borrowers' liability hereunder, the Lender may at any time release, surrender, substitute or exchange any collateral securing this Note and may at any time release any party primarily or secondarily liable for the indebtedness evidenced by this Note. No amendment, modification or waiver of any provision of this Note, nor consent to any departure by any Borrower herefrom, shall be effective unless the same shall be in writing signed by an authorized officer of Lender, and then only in the specific instance and for the purpose for which given.

In the event that any payment of any principal or interest due hereunder shall not be paid when due, whether by reason of acceleration, termination or otherwise, and this Note is placed in the hands of an attorney or attorneys for collection or for foreclosure of any agreement, document or instrument securing payment hereof or for representation of Lender in connection with bankruptcy or insolvency proceedings relating hereto, each Borrower jointly and severally promises to pay, in addition to all other amounts otherwise due hereon, all costs and expenses of such collection, foreclosure and representation, including, without limitation, reasonable attorneys' fees, expert witness fees and all other costs and expenses paid or incurred by Lender in connection therewith (whether or not litigation shall be commenced in aid thereof).

All notices required to be given or which may be given in connection with this Note shall be given in the manner required for notices under the Purchase Agreement.

This Note is governed by and shall be interpreted in accordance with the internal laws of the State of Missouri, without regard to conflict of law rules.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGES FOLLOW]

LIFE SUPPORT PRODUCTS, INC.

By: /s/ Barry F. Baker
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

BICORE MONITORING SYSTEMS, INC.

By: /s/ Barry F. Baker
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

THIS NOTE IS SUBJECT TO THE TERMS AND CONDITIONS OF THAT CERTAIN SUBORDINATION AGREEMENT DATED AS OF AUGUST 7, 1997, BY AND BETWEEN THE LENDER NAMED BELOW AND FOOTHILL CAPITAL CORPORATION.

PROMISSORY NOTE

\$125,000.00

St. Louis, Missouri
August 7, 1997

FOR VALUE RECEIVED, the undersigned, ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation, B&F MEDICAL PRODUCTS, INC., a Delaware corporation, BEAR MEDICAL SYSTEMS, INC., a California corporation, HOSPITAL SYSTEMS, INC., a California corporation, LIFE SUPPORT PRODUCTS, INC., a California corporation, BICORE MONITORING SYSTEMS, INC., a California corporation, each with their chief executive office located at 1720 Sublette Avenue, St. Louis, Missouri, 63110 (collectively "Borrowers") HEREBY JOINTLY AND SEVERALLY PROMISE TO PAY to the order of DENNIS W. SHEEHAN (the "Lender") in lawful money of the United States of America, the principal sum of ONE HUNDRED TWENTY-FIVE THOUSAND AND NO/100 DOLLARS (\$125,000.00), together with interest thereon from the date hereof at a fixed rate per annum equal to fourteen percent (14%), compounded semi-annually. Principal and interest shall be due and payable as follows:

(a) Interest shall be due on the first Business Day of each month (for the immediately preceding month), computed through the last calendar day of the preceding month, and on the Maturity Date. Interest shall be calculated on a daily basis (computed on the actual number of days elapsed over a year of 360 days), commencing on the date hereof (including the first day but excluding the last day); and

(b) Principal shall be due and payable on the earlier of: (a) February 7, 1998 or thirty (30) days thereafter if extended in accordance with the Purchase Agreement (the "Maturity Date"), or (b) the occurrence of an Event of Default (as defined in the hereinafter defined Purchase Agreement).

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Wherever possible each provision of this Note shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or remaining provisions of this Note. No delay or failure on the part of the Lender in the exercise of any right or remedy hereunder shall operate as a waiver thereof, nor as an acquiescence in any default, nor shall any single or partial exercise by the Lender of any right or remedy preclude any other right or remedy. The Lender, at its option, may enforce its rights against

any collateral securing this Note without enforcing its rights against the Borrowers, any guarantor of the indebtedness evidenced hereby or any other property or indebtedness due or to become due to the Borrowers. The Borrowers agree that, without releasing or impairing any Borrowers' liability hereunder, the Lender may at any time release, surrender, substitute or exchange any collateral securing this Note and may at any time release any party primarily or secondarily liable for the indebtedness evidenced by this Note. No amendment, modification or waiver of any provision of this Note, nor consent to any departure by any Borrower herefrom, shall be effective unless the same shall be in writing signed by an authorized officer of Lender, and then only in the specific instance and for the purpose for which given.

In the event that any payment of any principal or interest due hereunder shall not be paid when due, whether by reason of acceleration, termination or otherwise, and this Note is placed in the hands of an attorney or attorneys for collection or for foreclosure of any agreement, document or instrument securing payment hereof or for representation of Lender in connection with bankruptcy or insolvency proceedings relating hereto, each Borrower jointly and severally promises to pay, in addition to all other amounts otherwise due hereon, all costs and expenses of such collection, foreclosure and representation, including, without limitation, reasonable attorneys' fees, expert witness fees and all other costs and expenses paid or incurred by Lender in connection therewith (whether or not litigation shall be commenced in aid thereof).

All notices required to be given or which may be given in connection with this Note shall be given in the manner required for notices under the Purchase Agreement.

This Note is governed by and shall be interpreted in accordance with the internal laws of the State of Missouri, without regard to conflict of law rules.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGES FOLLOW]

LIFE SUPPORT PRODUCTS, INC.

/s/ Barry F. Baker

By: _____
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

BICORE MONITORING SYSTEMS, INC.

/s/ Barry F. Baker

By: _____
Name: Barry F. Baker
Title: Vice President-Finance

ATTEST:

By: _____
Name: _____
Title: _____

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND MUST BE HELD INDEFINITELY UNLESS SUBSEQUENTLY REGISTERED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR DISPOSED OF PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS.

WARRANT

Company: Allied Healthcare Products, Inc., a Delaware corporation
Number of Shares: 25,000
Class of Stock: Common Stock
Initial Exercise Price: \$7.025 per share
Issued as of: August 7, 1997
Expiration Date: August 7, 2002

FOR VALUE RECEIVED, the adequacy and receipt of which is hereby acknowledged, ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation, hereby certifies that WOODBOURNE PARTNERS, L.P., a Missouri limited partnership ("Woodbourne"), and its successors and assigns, are entitled to purchase from the Company at any time and from time to time on and after August 7, 1998, until 12:00 midnight California local time on the Expiration Date at an initial exercise price of SEVEN AND 025/1000 DOLLARS (\$7.025) per share of Common Stock Twenty Five Thousand (25,000) fully paid and nonassessable shares of Common Stock of the Company on the terms and conditions hereinafter set forth.

The number of such shares of Common Stock and the Exercise Price are subject to adjustment as provided in this Warrant. Anything contained in this Warrant to the contrary notwithstanding, the number of shares of Common Stock which may be issued upon exercise of this Warrant by any Regulated Warrantholder shall never exceed such amount (the "Maximum Amount") as may be permitted under the Bank Holding Company Act, or any successor statute, or under any other federal or state banking laws or regulations to which such Regulated Warrantholder may be subject at the time of such exercise. If the number of shares of Common Stock which may be issued upon exercise of this Warrant exceeds the Maximum Amount, the number of shares of Common Stock into which this Warrant may be exercised will be reduced to the Maximum Amount and the Company will pay

to Foothill by check or in cash such amount that equals the Exercise Price multiplied by the number of shares of Common Stock by which the Warrant is reduced pursuant to this paragraph.

1. CERTAIN DEFINITIONS. As used in this Warrant, the following terms have the following definitions:

"Additional Shares of Common Stock" means all shares of Common Stock issued or issuable by the Company after the date of this Warrant.

"Common Stock" means the Company's Common Stock, par value \$.01 per share, and includes any common stock of the Company of any class or classes resulting from any reclassification or reclassifications thereof which is not limited to a fixed sum or percentage of par value in respect of the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company.

"Company" means Allied Healthcare Products, Inc., a Delaware corporation.

"Convertible Securities" means evidence of indebtedness, shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Additional Shares of Common Stock.

"Current Market Price" of a share of Common Stock or of any other security as of a relevant date means: (i) the Fair Value thereof as determined in accordance with clause (ii) of the definition of Fair Value with respect to Common Stock or any other security that is not listed on a national securities exchange or traded on the over-the-counter market or quoted on NASDAQ, and (ii) the average of the daily closing prices for the ten (10) trading days before such date (excluding any trades which are not bona fide arm's length transactions) with respect to Common Stock or any other security that is listed on a national securities exchange or traded on the over-the-counter market or quoted on NASDAQ. The closing price for each day shall be (i) the last sale price of shares of Common Stock or such other security, regular way, on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices thereof on such date, in each case as officially reported on the principal national securities exchange on which the same are then listed or admitted to trading, or (ii) if no shares of Common Stock or if no securities of the same class as such other security are then listed or admitted to trading on any national securities exchange, the average of the reported closing bid and asked prices thereof on such date in the over-the-counter market as shown by the National Association of Securities Dealers automated quotation system or, if no shares of Common Stock or if no securities of the same class as such other security are then quoted in such system, as published by the National Quotation Bureau, Incorporated or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Warrantholders.

"Exchange Act" means the Securities Act of 1934.

"Exercise Period" means the period commencing on August 7, 1998 and ending at 12:00 midnight California local time on the Expiration Date.

"Exercise Price" means initially Seven and 025/1000 Dollars (\$7.025) per share, subject to adjustment as provided in this Warrant.

"Expiration Date" means August 7, 2002.

"Fair Value" means: (i) with respect to a share of Common Stock or any other security, the Current Market Price thereof, and (ii) with respect to any other property, assets, business or entity, an amount determined in accordance with the following procedure: the Company and the holders of the Warrants and Warrant Shares, as applicable, shall use their best efforts to mutually agree to a determination of Fair Value within ten (10) days of the date of the event requiring that such a determination be made. If the Company and such holders are unable to reach agreement within said ten (10) day period, the Company and such holders shall within ten (10) days of the expiration of the ten (10) day period referred to above each retain a separate independent investment banking firm (which firm shall not be the investment banking firm regularly retained by the Company). If either the Company or such holders fails to retain such an investment banking firm during such period, then the independent investment banking firm retained by such holders or the Company, as the case may be, acting along, shall take the actions outlined below. Such firms shall determine (within thirty (30) days of their being retained) the Fair Value of the security, property, assets, business or entity, as the case may be, in question and deliver their opinion in writing to the Company and to such holders. If such firms cannot jointly make the determination, then, unless otherwise directed by agreement of the Company and such holders, such firms, in their sole discretion, shall choose another investment banking firm independent of the Company and such holders, which firm shall make the determination and render an opinion as promptly as practicable. In either case, the determination so made shall be conclusive and binding on the Company and such holders. The fees and expenses of any such determination made by any and all such independent investment banking firms shall be paid by the Company. If there is more than one holder of Warrants, and/or Warrant Shares entitled to a determination of Fair Value in any particular instance, each action to be taken by the holders of such Warrants and/or Warrant Shares under this Section shall be taken by a majority in interest of such holders and the action taken by such majority (including as to any mutual agreement with the Company with respect to Fair Value and as to any selection of investment banking firms) shall be binding upon all such holders. In the case of a determination of the Fair Value per share of Common Stock, the Company and such holders shall not take into consideration, and shall instruct all such investment banking firms not to take into consideration, any premium for shares representing control of the Company, any discount for any minority interest therein or any restrictions on transfer under applicable federal and state securities laws or otherwise.

"Foothill" means Foothill Capital Corporation, a California corporation.

"Indemnified Party" and "Indemnifying Party" have the meanings set forth in Section 11(e)(iii).

"Loan Agreement" means that certain Loan and Security Agreement of even date herewith among the Company, its subsidiaries named therein and Foothill.

"Registrable Stock" means: (i) all Warrant Shares which are issuable to the Warranholders pursuant to the Warrants, whether or not the Warrants have in fact been exercised and whether or not such Warrant Shares have in fact been issued, (ii) all Warrant Shares acquired by the Warranholders pursuant to the Warrants, (iii) any shares of Common Stock, whether or not such shares of Common Stock have in fact been issued, and stock or other securities of the Company issued upon conversion of, in a stock split or reclassification of, or a stock dividend or other distribution on, or in substitution or exchange for, or otherwise in connection with, such Warrant Shares. For purposes of Section 11, a Warranholder of record shall be treated as the record holder of the related Warrant Shares and other securities issuable pursuant to the Warrants.

"Regulated Warranholder" means any Warranholder which is, or the part of which is, subject to the Bank Holding Company Act, or any successor statute, or any other federal or state banking laws and regulations.

"Securities Act" means the Securities Act of 1933, as amended.

"Warrant(s)" means this Warrant and any warrants issued in exchange or replacement of this Warrant or upon transfer hereof.

"Warranholder(s)" means Woodbourne and its successors and assigns.

"Warrant Share" means shares of Common Stock issuable to Warranholders pursuant to the Warrants.

2. EXERCISE OF WARRANT. This Warrant may be exercised, in whole or in part, at any time and from time to time during the Exercise Period by written notice to the Company and upon payment to the Company of the Exercise Price (subject to adjustment as provided herein) for the shares of Common Stock in respect of which the Warrant is exercised.

3. FORM OF PAYMENT OF EXERCISE PRICE. Anything contained herein to the contrary notwithstanding, at the option of the Warranholders, the Exercise Price may be paid in any one or a combination of the following forms: (a) by wire transfer to the Company, (b) by the Warranholder's check to the Company, (c) by the cancellation of any indebtedness owed by the Company and/or any subsidiaries of the Company to the Warranholder, and/or (d) by the surrender to the Company of Warrants, Warrant Shares, Common Stock and/or other securities of the Company and/or any subsidiaries of the Company having a Fair Value equal to the Exercise Price.

4. CASHLESS EXERCISE/CONVERSION; APPRECIATION RIGHTS.

(a) Cashless Exercise/Conversion. In lieu of exercising this Warrant as specified in Sections 2 and 3 above, the Warranholders may from time to time at the Warranholders' option convert this Warrant, in whole or in part, into a number of shares of Common Stock of the Company determined by dividing (A) the aggregate Fair Value of such shares or other securities otherwise issuable upon exercise of this Warrant minus the aggregate Exercise Price of such shares by (B) the Fair Value of one such share.

(b) Appreciation Right. At any time on or after August 7, 2000, in lieu of exercising this Warrant as specified in Sections 2 and 3 above, the Warranholders may from time to time at the Warranholders' option require the Company to purchase this Warrant or any portion hereof, for cash, at a price equal to the then Fair Value of the Common Stock issuable upon exercise of this Warrant less the Exercise Price. Upon the Warranholders' exercise of this option, the Company shall promptly wire transfer to the Warranholders such amount in immediately available funds as is required under this Section 4(b), but in no event later than five (5) business days after the exercise of such option, in immediately available funds.

5. CERTIFICATES FOR WARRANT SHARES; NEW WARRANT. The Company agrees that the Warrant Shares shall be deemed to have been issued to the Warranholders as the record owner of such Warrant Shares as of the close of business on the date on which payment for such Warrant Shares has been made (or deemed to be made by conversion) in accordance with the terms of this Warrant. Certificates for the Warrant Shares shall be delivered to the Warranholders within a reasonable time, not exceeding five (5) days, after this Warrant has been exercised or converted. A new Warrant representing the number of shares, if any, with respect to which this Warrant remains exercisable also shall be issued to the Warranholders within such time so long as this Warrant has been surrendered to the Company at the time of exercise.

6. ADJUSTMENT OF EXERCISE PRICE, NUMBER OF SHARES AND NATURE OF SECURITIES ISSUABLE UPON EXERCISE OF WARRANTS.

(a) Exercise Price; Adjustment of Number of Shares. The Exercise Price shall be subject to adjustment from time to time as hereinafter provided. Upon each adjustment of the Exercise Price, the Warranholders shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, a number of shares determined by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment.

(b) Adjustment of Exercise Price Upon Issuance of Common Stock. If and whenever after the date hereof the Company shall issue or sell Additional Shares of Common Stock without consideration or for a consideration per share less than the Current Market Price or the Exercise Price then in effect immediately prior to the issuance or sale of such shares, then the Exercise

Price in effect immediately prior to such issuance or sale of such shares shall be reduced to a number which shall be calculated by dividing (A) an amount equal to the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing Exercise Price plus (2) the aggregate consideration, if any, received by the Company upon such issue or sale, by (B) the total number of shares of Common Stock outstanding immediately after such issue or sale.

No adjustment of the Exercise Price, however, shall be made in an amount less than \$.01 per share, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to \$.01 per share or more.

The provisions of this Section 6(b) shall not apply to (i) any Additional Shares of Common Stock which are distributed to holders of Common Stock pursuant to a stock split for which an adjustment is provided for under Section 6(f), or (ii) any additional shares of Common Stock which are issued upon exercise of options to purchase Common Stock outstanding as of the date of issuance of this Warrant.

(c) Further Provisions for Adjustment of Exercise Price Upon Issuance of Additional Shares of Common Stock and Convertible Securities. For purposes of Section 6(b), the following provisions shall also be applicable:

(i) in case at any time on or after the date hereof, the Company shall declare any dividend, or authorize any other distribution, upon any stock of the Company of any class, payable in Additional Shares of Common Stock or by the issuance of Convertible Securities, such declaration or distribution shall be deemed to have been issued or sold (as of the record date) without consideration and shall thereby cause an adjustment in the Exercise Price as required by Section 6(b).

(ii) (A) In case at any time on or after the date hereof, the Company shall in any manner issue or sell any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, there shall be determined the price per share for which Additional Shares of Common Stock are issuable upon the conversion or exchange thereof, such determination to be made by dividing (a) the total amount received or receivable by the Company as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof by (b) the maximum aggregate number of Additional Shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities for such minimum aggregate amount of additional consideration; and such issue or sale shall be deemed to be an issue or sale for cash (as of the date of issue or sale of such Convertible Securities) of such maximum number of Additional Shares of Common Stock at the price per share so determined, and shall thereby cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b) hereof.

(B) If such Convertible Securities shall by their terms provide for an increase or increases, with the passage of time, in the amount of additional consideration, if any, payable to the Company, or in the rate of exchange upon the conversion or exchange thereof, the adjusted Exercise Price shall, upon any such increase becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made upon the issuance of such Convertible Securities been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock theretofore actually delivered upon the exercise of such Convertible Securities, (b) the issuance of all Common Stock, all Convertible Securities and all rights and options to purchase Common Stock issued after the issuance of such Convertible Securities, and (c) the original issuance at the time of such change of such Convertible Securities then still outstanding; provided, however, that any such increase or increases shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the Convertible Securities.

(C) If any rights of conversion or exchange evidenced by such Convertible Securities shall expire without having been exercised, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment with respect to such Convertible Securities been made on the basis that the only Additional shares of Common Stock issued or sold were those issued upon the conversion or exchange of such Convertible Securities, and that they were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of such Convertible Securities.

(iii) (A) In case at any time on or after the date hereof, the Company shall in any manner grant or issue any rights or options to subscribe for purchase or otherwise acquire Additional Shares of Common Stock, whether or not such rights or options are immediately exercisable, there shall be determined the price per share for such Additional Shares of Common Stock are issuable upon the exercise of such rights or options, such determination to be made by dividing (a) the total amount, if any, received or receivable by the Company as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of such rights or options if the maximum number of Additional Shares were issued pursuant to such rights or options for such minimum aggregate amount of additional consideration, by (b) the maximum number of Additional Shares of Common Stock of the Company issuable upon the exercise of all such rights or options for such minimum aggregate amount of additional consideration; and the granting of such rights or options shall be deemed to be an issue or sale for cash (as of the date of the granting of such rights or options) of such maximum number of Additional Shares of Common Stock at the price per share so determined, and shall thereby cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b) hereof.

(B) If such rights or options shall by their terms provide for an increase or increases, with passage of time, in the amount of additional consideration payable to the Company upon the exercise thereof, the adjusted Exercise Price shall, upon any such increases

becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made upon the issuance of such rights or options been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock theretofore actually delivered upon the exercise of such rights or options, (b) the issuance of all Common Stock, all rights and options and all Convertible Securities issued after the issuance of such rights and options, and (c) the original issuance at the time of such change of any such rights or options then still outstanding; provided, however, that any such increase or increases in the Exercise Price shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the grant of such rights or options.

(C) If any such rights or options shall expire without having been exercised, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment with respect to such rights or options been made on the basis that the only Additional Shares of Common Stock so issued or sold were those issued or sold upon the exercise of such rights or options and that they were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of such rights or options.

(iv) (A) In case at any time on or after the date hereof, the Company shall grant any rights or options to subscribe for, purchase or otherwise acquire Convertible Securities, there shall be determined the price per share for which Additional Shares of Common Stock are issuable upon the exchange or conversion of such Convertible Securities if such rights or options were exercised, such determination to be made by dividing (a) the total amount, if any, received or receivable by the Company as consideration for the issuance of such rights or options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of such rights or options if the maximum number of Convertible Securities were issued pursuant to such rights or options for such minimum aggregate amount of additional consideration, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exchange or conversion of such Convertible Securities if the maximum number of Additional Shares were issued pursuant to such Convertible Securities for such minimum aggregate amount of additional consideration, by (b) the maximum aggregate number of Additional Shares of Common Stock issuable upon the exchange or conversion of the Convertible Securities for such minimum aggregate amount of additional consideration; and the issue or sale of such rights or options shall be deemed to be an issue or sale for cash (as of the date of the granting of such rights or options) of such minimum number of Additional Shares of Common Stock at the price per share so determined, and thereby shall cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b).

(B) If such rights or options to subscribe for or otherwise acquire Convertible Securities shall by their terms provide for an increase or increases, with the passage of time, in the amount of additional consideration payable to the Company upon the exercise, exchange or conversion thereof, the adjusted Exercise Price shall, forthwith upon any such increase becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made

upon the issuances of such rights or options been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock therefore actually delivered upon the exchange or conversion of such Convertible Securities, (b) the issuances of all Common Stock and all rights, options and Convertible Securities issued after the issuance of such rights and options and (c) the original issuances at the time of such change of any such rights, options and Convertible Securities issued upon exercise of such rights or options which are then still outstanding; provided, however, that any such increase or increases shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the grant of such rights or options.

(C) If any such rights, options or rights of conversion or exchange of such convertible Securities shall expire without having been exercised, exchanged or converted, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment been made with respect to such rights, options or rights of conversion or exchange of such Convertible Securities on the basis that the only Additional Shares of Common Stock so issued or sold were those issued or sold upon the exercise of such rights or options and exchange or conversion of such Convertible Securities and that they were issued or sold for the consideration actually received by the Company upon exercise of such rights and options and exchange or conversion of such Convertible Securities, plus the consideration if any, actually received by the Company for the granting of such rights, options or Convertible Securities.

(v) In any case where an adjustment has been made in the Exercise Price upon the issuance of Convertible Securities or any rights or options to purchase Convertible Securities or Additional Shares of Common Stock pursuant to this Section 6(c), no further adjustment shall be made at the time of the conversion of any such Convertible Securities or at the time of the exercise of any such rights or options.

(vi) In case at any time on or after the issuance of this Warrant any shares of Common Stock or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash payable to the company shall be deemed to be the Fair Value of such consideration. Whether or not the consideration so received is cash, the amount thereof shall be determined after deducting therefrom any expenses incurred or any underwriting commissions or concessions or discounts paid or allowed by the Company in connection therewith.

(vii) In case at any time the company shall fix a record date of the holders of its Common Stock for the purpose of entitling them (a) to receive a dividend or other distribution payable in Common Stock, Convertible Securities or rights or options to purchase either thereof, or (b) to subscribe for or purchase Common Stock, Convertible Securities or rights or options to purchase either thereof, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed, pursuant to this Section 6(c), to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(viii) The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock for the purposes of this Section 6(c).

(d) Reorganization, Reclassification, Consolidation, Merger or Sale. If any capital reorganization or reclassification of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive cash, stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby the Warrantheolders shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant upon exercise of this Warrant and in lieu of the shares of the Common Stock of the Company immediately therefore purchasable and receivable upon the exercise of the rights represented hereby, such cash, shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of Common Stock equal to the number of shares of such Common Stock immediately therefore purchasable and receivable upon the exercise of the rights represented hereby, and in any such case appropriate provision shall be made with respect to the rights and interest of the Warrantheolders to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any consolidation, merger or sale of all or substantially all of the assets of the Company unless prior to or simultaneous with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation, merger or purchase of such assets shall assume, by written instrument executed and mailed or delivered to the Warrantheolders, the obligation to deliver to such Warrantheolders such cash (or cash equivalent), shares of stock, securities or assets as, in accordance with the foregoing provisions, the Warrantheolders may be entitled to receive and containing the express assumption of such successor corporation of the due and punctual performance and observance of each provision of this Warrant to be performed and observed by the Company and of all liabilities and obligations of the Company hereunder; provided, however, in the case of any consolidation or merger of the Company with another corporation or the sale of all or substantially all of its assets to another corporation effected in such a manner that the holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, at the election of each Warrantheolder, in lieu of receiving such stock, securities or assets, such Warrantheolder shall receive cash equal to the Fair Value of the Common Stock issuable upon exercise of the Warrant, less the Exercise Price payable upon exercise thereof.

In case any Additional Shares of Common Stock or Convertible Securities or any rights or options to purchase any Additional Shares of Common Stock or Convertible Securities shall be issued in connection with any merger of another corporation into the Company, the amount of consideration therefor shall be deemed to be the Fair Value of such portion of the assets of such

merged corporation as the Board of Directors of the Company shall in good faith determine to be attributable to such Additional Shares of Common Stock, Convertible Securities or rights or options, as the case may be, and the Exercise Price shall be adjusted in accordance with this Section 6(d).

(e) Company to Prevent Dilution. In case at any time or from time to time conditions arise by reason of action taken by the Company which are not adequately covered by the provisions of this Section 6, and which might materially and adversely affect the exercise rights of the Warrantheholders under any provision of this Warrant, unless the adjustment necessary shall be agreed upon by the Company and the Warrantheholders, the Board of Directors of the Company shall appoint a firm of independent certified public accountants of recognized national standing (who have not been employed by the Company within the last five years), acceptable to the Warrantheholders, what the Company's expense shall give their opinion upon the adjustment, if any, on a basis consistent with the standards established in the other provisions of this Section 6, necessary with respect to the Exercise Price and the number of shares purchasable upon exercise of the Warrants, so as to preserve, without dilution, the exercise rights of the Warrantheholders. Upon receipt of such opinion, such Board of Directors shall forthwith make the adjustments described therein.

(f) Stock Splits and Reverse Splits. In case at any time the Company shall subdivide its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of shares of Common Stock purchasable pursuant to this Warrant immediately prior to such subdivision shall be proportionately increased, and conversely, in case at any time the Company shall combine its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of shares of Common Stock purchasable upon the exercise of this Warrant immediately prior to such combination shall be proportionately reduced.

(g) Dissolution, Liquidation and Winding-Up. In case the Company shall, at any time prior to the expiration of this Warrant, dissolve, liquidate or wind up its affairs, the Warrantheholders shall be entitled, upon the exercise of this Warrant, to receive, in lieu of the shares of Common Stock of the Company which such Warrantheholders would have been entitled to receive, the same kind and amount of assets as would have been issued, distributed or paid to such Warrantheholders upon any such dissolution, liquidation or winding up with respect to such shares of Common Stock of the Company, had such Warrantheholders been the holders of record of the Warrant Shares receivable upon the exercise of this Warrant on the record date for the determination of those persons entitled to receive any such liquidating distribution. After any such dissolution, liquidation or winding up which shall result in any cash distribution in excess of the Exercise Price provided for by this Warrant, the Warrantheholders may, at each such Warrantheholder's option, exercise the same without making payment of the Exercise Price, and in such case the Company shall, upon the distribution to said Warrantheholders, consider that said Exercise Price has been paid in full to it and in making settlement to said Warrantheholders, shall deduct from the amount payable to such Warrantheholders an amount equal to such Exercise Price.

(h) Noncash Consideration. In case any Additional Shares of Common Stock or Convertible Securities or any rights or options to purchase any Additional Shares of Common Stock or Convertible Securities shall be issued for a consideration in a form other than cash, the amount of such consideration shall be deemed to be the Fair Value thereof.

(i) Accountants' Certificate. In each case of an adjustment in the number of shares of Common Stock or other stock, securities or property receivable on the exercise of the Warrants, the Company at its expense shall cause independent public accountants of recognized standing selected by the Company and acceptable to the Warrantheolders to compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment and showing in detail the facts upon which such adjustment is based, including a statement of (a) the consideration received or to be received by the Company for any Additional Shares of Common Stock, rights, options or Convertible Securities issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock of each class outstanding or deemed to be outstanding, (c) the adjusted Exercise Price and (d) the number of shares issuable upon exercise of this Warrant. The Company will forthwith mail a copy of each such certificate to each Warrantheolder.

7. SPECIAL AGREEMENTS OF THE COMPANY.

(a) Reservation of Shares. The Company covenants and agrees that all Warrant Shares will, upon issuance, be validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and from all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant. The Company hereby covenants and agrees to take all such action as may be necessary to assure that the par value per share of the Common Stock is at all times equal to or less than the Exercise Price.

(b) Avoidance of Certain Actions. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, issue or sale of securities or otherwise, avoid or take any action which would have the effect of avoiding the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in carrying out all of the provisions of this Warrant and in taking all of such action as may be necessary or appropriate in order to protect the rights of the Warrantheolders against dilution or other impairment of their rights hereunder.

(c) Securing Governmental Approvals. If any shares of Common Stock required to be reserved for the purposes of exercise of this Warrant require registration with or approval of any governmental authority under any federal law (other than the Securities Act) or under any state law before such shares may be issued upon exercise of this Warrant, the Company will, at its expense, as expeditiously as possible, cause such shares to be duly registered or approved, as the case may be.

(d) Listing on Securities Exchanges; Registration. If, and so long as, any class of the Company's Common Stock shall be listed on any national securities exchange (as defined in the Exchange Act), the Company will, at its expense, obtain and maintain the approval for listing upon official notice of issuance of all Warrant Shares and maintain the listing of Warrant Shares after their issuance; and the Company will so list on such national securities exchange, will register under the Exchange Act (or any similar statute then in effect), and will maintain such listing of, any other securities that at any time are issuable upon exercise of this Warrant if and at the time any securities of the same class shall be listed on such national securities exchange by the Company.

(e) Information Rights. So long as the Warrantholders hold this Warrant and/or any of the Warrant Shares, the Company shall deliver to the Warrantholders (i) promptly after mailing, copies of all communications to the shareholders of the Company, (ii) within ninety (90) days after the end of each fiscal year of the Company, the annual audited financial statements of the Company certified by the independent public accountants of recognized standing, and (iii) within forty-five (45) days after the end of each of the first three quarters of each fiscal year, the Company's quarterly, unaudited financial statements.

(f) Restrictions on Public Sale by the Company. In the event of an underwritten offering by the Company made pursuant to a registration statement filed pursuant to Sections 11(a) or 11(b) the Company will not effect any public or private sale or distribution of its convertible debt or equity securities, including a sale under Regulation D of the Securities Act, for such period of time (not to exceed 90 days) as may be requested by the underwriters subject to customary exceptions; and the Company shall cause each holder of its privately placed convertible debt or equity securities issued by it at any time on or after the date of this Warrant to agree not to effect any public sale or distribution of any such securities during such period, including a sale pursuant to Rule 144 or Rule 144A under the Securities Act.

(g) Preemptive Rights. In the event the Company offers to the Company's shareholders the right to purchase any securities of the Company, then all shares of Common Stock issuable pursuant to the Warrants shall be deemed to be issued and outstanding and held by the Warrantholders and the Warrantholders shall be entitled to participate in such rights offering.

(h) Compliance with Law. The Company shall comply with all applicable laws, rules and regulations of the United States and of all states, municipalities and agencies and of any other jurisdiction applicable to the Company and shall do all things necessary to preserve, renew and keep in full force and effect and in good standing its corporate existence and authority necessary to continue its business.

8. FRACTIONAL SHARES. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon exercise hereof, the Company shall pay to the Warrantholder an amount in cash equal to such fraction multiplied by the Current Market Value of one share of Common Stock.

9. NOTICES OF STOCK DIVIDENDS, SUBSCRIPTIONS, RECLASSIFICATIONS, CONSOLIDATIONS, MERGERS, ETC. If at any time: (i) the Company shall declare a cash dividend (or an increase in the then existing dividend rate), or declare a dividend on Common Stock payable otherwise than in cash out of its net earnings after taxes for the prior fiscal year; or (ii) the Company shall authorize the granting to the holders of Common Stock of rights to subscribe for or purchase any shares of capital stock of any class or of any other rights; or (iii) there shall be any capital reorganization, or reclassification, or redemption of the capital stock of the Company, or consolidation or merger of the Company with or sale of all or substantially all of its assets to, another corporation or firm; or (iv) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company, then the Company shall give to the Warrantholders at the addresses of such Warrantholders as shown on the books of the Company, at least twenty (20) days prior to the applicable record date hereinafter specified, a written notice summarizing such action or event and stating the record date for any such dividend or rights (or, if a record date is not to be selected, the date as of which the holders of Common Stock of record entitled to such dividend or rights are to be determined), the date on which any such reorganization, reclassification, consolidation, merger, sale of assets, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected the holders of Common Stock of record shall be entitled to effect any exchange of their shares of Common Stock for cash (or cash equivalent), securities or other property deliverable upon any such reorganization, reclassification, consolidation, merger, sale of assets, dissolution, liquidation or winding up.

10. REGISTERED HOLDER; TRANSFER OF WARRANTS OR WARRANT SHARES.

(a) Maintenance of Registered books; Ownership of this Warrant. The Company shall keep at its principal office a register in which the Company shall provide for the registration, transfer and change of this Warrant. The Company shall not at any time, except upon the dissolution, liquidation or winding-up of the Company, close such register so as to result in preventing or delaying the exercise or transfer of this Warrant.

(b) Exchange and Replacement. This Warrant is exchangeable upon surrender hereof by the registered holder to the Company at its principal office for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares purchasable hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by said registered holder at the time of surrender. This Warrant and all rights hereunder are transferable in whole or in part upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and new Warrants shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of the transferee(s) upon surrender of this Warrant, duly endorsed, to said office of the Company. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor, in lieu of this Warrant, without requiring the posting of any bond or the giving of any other security. This Warrant shall be promptly canceled by the Company upon the surrender hereof in connection with any exchange, transfer or replacement.

The Company shall pay all expenses, taxes and other charges payable in connection with the preparation, execution and delivery of Warrants pursuant to this Section 10.

(c) Warrants and Warrant Shares Not Registered. The holder of this Warrant, by accepting this Warrant, represents and acknowledges that this Warrant and the Warrant Shares are not being registered under the Securities Act on the grounds that the issuance of this Warrant and the offering and sale of such Warrant Shares are exempt from registration under Section 4(2) of the Securities Act as not involving any public offering.

11. REGISTRATION.

(a) Required Registration. Whenever the Company shall receive a written request therefor from any holder or holders of at least 50% of the Registrable Stock, the Company shall promptly prepare and file a registration statement under the Securities Act covering the Registrable Stock which is the subject of such request and shall use its best efforts to cause such registration statement to become effective as expeditiously as possible; provided that the Company's obligations under this Section 11(a) shall be limited to one required registration only. Upon the receipt of such request, the Company shall promptly give written notice to all holders of Registrable Stock that such registration is to be effected. The Company shall include in such registration statement such Registrable Stock for which it has received written requests to register such shares by the holders thereof within thirty (30) days after the effectiveness of the Company's written notice to such other holders. Except as hereinafter expressly provided, without the written consent of the holders of a majority of the shares of Registrable Stock for which registration has been requested pursuant to this Section, neither the Company nor any other holder of securities of the Company may include securities in such registration.

(b) Incidental Registration. Each time the Company shall determine to file a registration statement under the Securities Act (other than on Form S-8 or Form S-4) in connection with the proposed offer and sale for money of any of its securities by it or by any of its securities holders, the company will give written notice of its determination to all holders of Registrable Stock. Upon written request of a holder of any Registrable Stock, the Company will cause all such Registrable Stock, the holders of which have so requested registration thereof, to be included in such registration statement, all to the extent requisite to permit the sale or other disposition by the prospective seller or sellers of the Registrable Stock to be so registered in accordance with the terms of the proposed offering. If the registration statement is to cover an underwritten distribution, the Company shall use its best efforts to cause the Registrable Stock requested for inclusion pursuant to this Section 11(b) to be included in the underwriting on the same terms and conditions as the securities otherwise being sold through the underwriters. If, in the good faith judgment of the managing underwriter of such public offering, the inclusion of all the Registrable Stock requested to be registered would materially and adversely affect the successful marketing of the other shares proposed to be offered, then the amount of the Registrable Stock to be included in the offering shall be reduced and the Registrable Stock and the other shares to be offered shall participate in such offering as follows: the shares to be sold by the company, the Registrable Stock to be included in

such offering and the other shares of Common Stock to be included in such offering shall each be reduced pr rata in proportion to the number of shares of Common Stock proposed to be included in such offering by each holder of such shares and by the Company.

(c) Registration Procedures. If and whenever the Company is required by the provisions of Section 11(a) or 11(b) to effect the registration of Registrable Stock under the Securities Act, the Company will, at its expense, expeditiously as possible:

(i) In accordance with the Securities Act and the rules and regulations of the Commission, prepare and file with the Commission a registration statement on the form of registration statement appropriate with respect to such securities and use its best efforts to cause such registration statement to become and remain effective until the securities covered by such registration statement have been sold, and prepare and file with the Commission such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective and such registration statement and prospectus accurate and complete until the securities covered by such registration statement have been sold;

(ii) If the offering is to be underwritten, in whole or in part, enter into a written underwriting agreement with the holders of the Registrable Stock participating in such offering and the underwriter in form and substance reasonably satisfactory to the managing underwriter of the public offering and the holders of the Registrable Stock participating in such offering;

(iii) Furnish to the holders of securities participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus and such other documents as such underwriters and holders may reasonably request in order to facilitate the public offering of such securities;

(iv) Use its best efforts to register or qualify the securities covered by such registration statement under such state securities or blue sky laws of such jurisdictions as such participating holders and underwriters may reasonably request.

(v) Notify the holders participating in such registration, promptly after it shall receive notice thereof, of the date and time when such registration statement and each post-effective amendment thereto has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(vi) Notify such holders promptly of any request by the Commission for the amending or supplementing of such registration statement or prospectus or for additional information;

(vii) Prepare and file with the Commission, promptly upon the request of any such holders, any amendments or supplements to such registration statement or prospectus

which, in the opinion of counsel for such holders, is required under the Securities Act or the rules and regulations thereunder in connection with the distribution or the Registrable Stock by such holders;

(viii) Prepare and promptly file with the Commission, and promptly notify such holders of the filing of, such amendments or supplements to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event has occurred as the result of which any such prospectus or any other prospectus is then in effect may include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(ix) In case any of such holders or any underwriter for any such holders is required to deliver a prospectus at a time when the prospectus then in circulation is not in compliance with the Securities Act or the rules and regulations of the Commission, prepare promptly upon request such amendments or supplements to such registration statement and such prospectus as may be necessary in order for such prospectus to comply with the requirements of the Securities Act and such rules and regulations;

(x) Advise such holders, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Commission suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued;

(xi) If requested by the managing underwriter or underwriters or a holder of Registrable Stock being sold in connection with an underwritten offering, immediately incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriters and the holders of a majority of the Registrable Stock being sold agree should be included therein relating to the plan of distribution with respect to such Registrable Stock, including information with respect to the Registrable Stock being sold to such underwriters, the purchase price being paid for by such underwriters and with respect to any other terms of the underwritten (or best efforts underwritten) offering of the Registrable Stock to be sold in such offering; and make all required filings of such prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(xii) Cooperate with the selling holders of Registrable Stock and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Stock to be sold and not bearing any restrictive legends; and enable such Registrable Stock to be in such denominations and registered in such names as the managing underwriters may request at least two business days prior to any sale of Registrable Securities to the underwriters;

(xiii) Prepare a prospectus supplement or post-effective amendment to the registration statement or the related prospectus or any document incorporated therein by reference or file any other required documents so that, as thereafter delivered to the purchasers of the Registrable Stock, the prospectus will not contain an untrue statement of material fact or omit to state any material fact necessary to make the statements therein not misleading;

(xiv) Enter into such agreements (including an underwriting agreement) and take all such other actions in connection therewith in order to expedite or facilitate the disposition of such Registrable Securities and in such connection, whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration:

(A) make such representations and warranties to the holders of such Registrable Stock and the underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters in primary underwritten offerings;

(B) If an underwriting agreement is entered into, the same shall set forth in full the indemnification provisions and procedures of Section 11(e) hereof with respect to all parties to be indemnified pursuant to said Section; and

(C) The Company shall deliver such documents and certificates as may be requested by the holders of the majority of the Registrable Stock being sold and the managing underwriters, if any, to evidence compliance with the terms of this Section 11(c) and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

The above shall be done at each closing under such underwriting or similar agreement or as and to the extent required thereunder;

(xv) Make available for inspection by a representative of the holders of a majority of the Registrable Stock, any underwriter participating in any disposition pursuant to a registration statement, and any attorney or accountant retained by the sellers or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such representative, underwriter, attorney or accountant in connection with the preparation of the registration statement; provided, that any records, information or documents that are designated by the Company in writing as confidential shall be kept confidential by such persons unless disclosure of such records, information or documents is required by court or administrative order;

(xvi) Otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make generally available to the Company's security holders, earning statements satisfying the provisions of Section 11(a) of the Securities Act, no later than forty-five (45) days after the end of any twelve (12) month period (or ninety (90) days, if such a period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Stock is sold to

underwriters in an underwritten offering, or, if not sold to underwriters in such an offering, (ii) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the registration statement;

(xvii) Not file any amendment or supplement to such registration statement or prospectus to which a majority in interest of such holders has objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or the rules and regulations thereunder, after having been furnished with a copy thereof at least five (5) business days prior to the filing thereof; provided, however, that the failure of such holders or their counsel to review or object to any amendment or supplement to such registration statement or prospectus shall not affect the rights of such holders or any controlling person or persons thereof or any underwriter or underwriters therefor under Section 11(e) hereof; and

(xviii) At the request of any such holder (i) furnish to such holder on the effective date of the registration statement or, if such registration includes an underwritten public offering, at the closing provided for in the underwriting agreement; an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, addressed to the underwriters, if any, and to the holder or holders making such request, covering such matters with respect to the registration statement, the prospectus and each amendment or supplement thereto, proceedings under state and federal securities laws, other matters relating to the Company, the securities being registered and the offer and sale of such securities as are customarily the subject of opinions of issuer's counsel provided to underwriters in underwritten public offerings, and such opinion of counsel shall additionally cover such legal and factual matters with respect to the registration as such requesting holder or holders may reasonably request, and (ii) use its best efforts to furnish to such holder letters dated each such effective date and such closing date, from the independent certified public accountants of the Company, addressed to the underwriters, if any, and to the holder or holders making such request, stating that they are independent certified public accountants within the meaning of the Securities Act and dealing with such matters as the underwriters may request, or, if the offering is not underwritten, that in the opinion of such accountants the financial statements and other financial data of the Company included in the registration statement or the prospectus or any amendment or supplement thereto comply in all material respects with the applicable accounting requirements of the Securities Act, and additionally covering such other financial matters, including information as to the period ending immediately prior to the date of such letter with respect to the registration statement and prospectus, as such requesting holder or holders may reasonably request.

(d) Expenses of Registration. All expenses incident to the Company's performance of or compliance with this Warrant, including, without limitation, the following shall be borne by the Company, regardless of whether the registration statement becomes effective:

(i) All registration and filing fees (including those with respect to filings required to be made with the National Association of Securities Dealers, Inc.);

(ii) Fees and expenses of compliance with all securities or blue sky laws (including fees and disbursements of counsel for the underwriters or selling holders in connection with blue sky qualifications of the Registrable Stock and in determination of their eligibility for investment under the laws of such jurisdictions as the managing underwriters or holders of a majority of the Registrable Stock being sold may designate);

(iii) Printing, messenger, telephone and delivery expenses;

(iv) Fees and disbursements of counsel for the Company and for the sellers of the Registrable Stock as hereinafter provided;

(v) Fees and disbursements of all independent certified public accountants of the Company (including the expenses of any special audit and "comfort" letters required by or incident to such performance); and

(vi) Fees and expenses of other persons retained by the Company.

The Company will, in any event, pay its internal expenses (including without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing of securities to be registered on each securities exchange on which similar securities issued by the Company are then listed, rating agency fees and the fees and expenses of any person, including special experts, retained by the Company.

In connection with the registration statement required hereunder, the Company will reimburse the holders of Registrable Stock being registered pursuant to the registration statement for the reasonable fees and disbursements of not more than one counsel (or more than one counsel if conflict exists among such selling holders in the exercise of the reasonable judgment of counsel for the selling holders and counsel for the Company) chosen by the holders of a majority of such Registrable Stock.

(e) Indemnification.

(i) The Company hereby agrees to indemnify each of the holders of Registrable Stock against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, preliminary or final prospectus, or other document incident to any such registration, qualification or compliance (or in any related registration statement, notification or the like) or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of any rule or regulation promulgated under the Securities Act applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and to reimburse the holders of Registrable Stock (including

officers and directors of the same and controlling persons) for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, provided, however, that the Company will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by the holders of the Registrable Stock in an instrument duly executed by Warranholders and stated to be specifically for use therein.

(ii) The holders of the Registrable Stock severally and not jointly agree to indemnify the Company and its officers and directors and each person, if any, who controls any thereof within the meaning of Section 15 of the Securities Act and their respective successors against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement of a material fact contained in any prospectus, offering circular or document incident to any registration, qualification or compliance relating to securities purchased pursuant to the Warrants (or in any related registration statement, notification or the like) or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading and will reimburse the Company and each other person indemnified pursuant to this subsection (ii) for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that this subsection (ii) shall apply only if (and only to the extent that) such statement or omission was made in reliance upon information (including, without limitation, written negative responses to inquiries) furnished to the Company by an instrument duly executed by Warranholders and stated to be specifically for use in such prospectus, or other document (or related registration statement, notification or the like) or any amendment or supplement thereto.

(iii) Each party entitled to indemnification hereunder (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party (as such Indemnifying Party's expense) to assume the defense of any claim or litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be satisfactory to the Indemnified Party, and the Indemnified Party may participate in such defense at such party's expense, and provided, further, that the omission by any Indemnified Party of its obligations under this Section 11(e) except to the extent that the omission results in a failure of actual notice to the Indemnifying Party and such Indemnifying Party is materially damaged solely as a result of the failure to give notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to the entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(iv) If the indemnification provided for in this Section 11(e) is unavailable or insufficient to hold harmless an Indemnified Party in respect of any losses, claims, damages, liabilities, expenses or actions in respect thereof referred to herein, then the Indemnifying Party shall

contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages, liabilities, expenses or actions in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand, and the Indemnified Party on the other, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities, expenses or actions as well as any other relevant equitable considerations, including the failure to give the notice required hereunder. The relative fault of the Indemnifying Party and the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Warrantholders agree that it would not be just and equitable if contributions pursuant to this Section 11(e) were determined by pro rata allocation or by any other method of allocation which did not take account of the equitable considerations referred to above. The amount paid or payable to an Indemnified Party as a result of the losses, claims, damages, liabilities, or actions in respect thereof, referred to above, shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the contribution provisions of this Section 11(e), in no event shall the amount contributed by any seller of Registrable Stock exceed the aggregate net offering proceeds received by such seller from the sale of Registrable Stock to which such contribution or indemnification claim relates. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentations.

(v) The indemnification required by this Section 11(e) shall be made by periodic payments during the course of the investigation or defense, as and when bills are received or expenses incurred. Anything contained herein to the contrary notwithstanding, the maximum aggregate liability of any holder of Registrable Stock under this Section 11(e) shall not exceed the amount of the net proceeds actually received by such holder from the sale of its Registrable Stock pursuant to the registration, qualification, notification or compliance in respect of which such liability arose.

(f) Reporting Requirements Under Exchange Act. The Company shall maintain the registration of its Common Stock under Section 12 of the Exchange Act and shall keep effective such registration and shall timely file such information, documents and reports as the Commission may require or prescribe under Section 13 of the Exchange Act, or otherwise. The Company under the Securities Act, the Company shall (whether or not it shall then be required to do so) timely file such information, documents and reports as the Commission may require or prescribe under Section 13 or 15(d) (whichever is applicable) of the Exchange Act. The Company shall forthwith upon request furnish any holder of Registrable Stock (i) a written statement by the Company that it has complied with such reporting requirements; (ii) a copy of the most recent annual or quarterly report of the Company; and (iii) such other reports and documents filed by the Company that it has complied with the Commission as such holder may reasonably request in availing itself of an exemption for the sale of Registrable Stock without registration under the Securities Act. The Company acknowledges and agrees that the purpose of the requirements contained in this Section 11(f) is to enable any such

holder to comply with the current public information requirement contained in Rule 144 (or any other similar exemptive provision). In addition, the Company shall take such other measures and file such other information, documents and reports as shall hereafter be required by the Commission as a condition to the availability of Rule 144 and Rule 144A under the Securities Act (or any similar exemptive provision hereafter in effect).

(g) Stockholder Information. The Company may require each holder of Registrable Stock as to which any registration is to be effected pursuant to this Section 11 to furnish the Company such information with respect to such holder and the distribution of such Registrable Stock as shall be required by law or by the Commission in connection therewith.

12. REPRESENTATION AND WARRANTIES. The Company hereby represents and warrants to and covenants with Foothill, each Warrantholder, and each holder of Warrant Shares that:

(a) Organization and Capitalization of the Company. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. As of the date hereof, the authorized capital of the Company consists of 30,000,000 shares of Common Stock and 1,500,000 shares of Preferred Stock, of which 7,801,682 shares of Common Stock and no shares of Preferred Stock are issued and outstanding. The Company has, and at all times during the Exercise Period will have, reserved for issuance pursuant to the Warrants that number of shares of Common Stock that are issuable pursuant to the Warrants. No unissued shares of Common Stock are reserved for any purpose other than for issuance upon the exercise of the Warrants. As of the date hereof, the Company has not issued or agreed to issue any stock purchase rights, options, convertible securities, warrants (other than this Warrant) or any other securities or indebtedness convertible into shares of Common Stock, and there are no preemptive rights in effect with respect to the issuance of any shares of Common Stock. All the outstanding shares of Common Stock and Preferred Stock have been validly issued without violation of any preemptive or similar rights, are fully paid and nonassessable and have been issued in compliance with all federal and applicable state securities laws.

(b) Authority. The Company has full corporate power and authority to execute and deliver this Warrant, to issue the shares of Common Stock issuable upon exercise of this Warrant, and to perform all of its obligations hereunder, and the execution, delivery and performance hereof has been duly authorized by all necessary corporate action on its part. This Warrant has been duly executed on behalf of the Company and constitutes the legal, valid and binding obligation of the Company enforceable in accordance with its terms.

(c) No Legal Bar. Neither the execution, delivery or performance of this Warrant nor the issuance of the shares of Common Stock issuable upon exercise of this Warrant will (a) conflict with or result in a violation of the Certificate of Incorporation or By-Laws of the Company, (b) conflict with or result in a violation of any law, statute, regulation, order or decree applicable to the Company or any affiliate, (c) require any consent or authorization or filing with, or other act by or in respect of any governmental authority or (d) result in a breach of, constitute a default under or

constitute an event creating rights of acceleration, termination or cancellation under any mortgage, lease, contract, franchise, instrument or other agreement to which the Company is a party or by which it is bound.

(d) Validity of Shares. When issued upon the exercise of this Warrant as contemplated herein, the shares of Common Stock so issued will have been validly issued and will be fully paid and nonassessable. On the date hereof, the par value of the Common Stock is less than the Exercise Price per share of Common Stock.

13. CONTINUING VALIDITY. Woodbourne and each holder of Warrant Shares shall continue to be entitled to all rights to which a Warrantholder is entitled pursuant to the provisions of this Warrant except such rights as by their terms apply solely to a Warrantholder, notwithstanding the fact that this Warrant has been exercised or the period of exercisability has expired. The Company will, at any time upon the request of Woodbourne or a holder of the Warrant Shares, acknowledge in writing, in form reasonably satisfactory to Woodbourne or such holder, the Company's continuing obligation to be entitled in accordance with the provisions of this Warrant; provided, however, that if Woodbourne or such holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to Woodbourne and such holder all such rights.

14. REDEMPTION.

(a) This Warrant may be redeemed, at the option of the Company, at any time after August 7, 2000 until the Expiration Date, for a redemption price equal to two times the then current Exercise Price, as adjusted as provided in this Warrant. This Warrant must be redeemed in whole and not in part if the Company exercises such right of redemption. All rights to exercise this Warrant shall terminate at 12:00 midnight California local time on the business day immediately preceding the date fixed for redemption.

(b) In the event the Company shall exercise its right to redeem this Warrant, it shall give notice to the Warrantholders by mailing a notice of redemption in accordance with the provisions stated herein, not less than 30 days prior to the redemption date.

(c) The notice of redemption shall specify the redemption price, the date fixed for redemption, the place where this Warrant shall be delivered and the redemption price shall be paid, and that the right to exercise this Warrant shall terminate at 12:00 midnight California local time on the business day immediately preceding the date fixed for redemption.

(d) Appropriate adjustment shall be made to the redemption price on the same basis as provided in Section 6 hereof with respect to adjustment of the Exercise Price.

(e) Effective on the date of the notice of redemption, the appreciation right set forth in Section 4(b), and all rights of Warrantholders under such Section 4(b), shall automatically terminate.

15. MISCELLANEOUS PROVISIONS.

(a) Notice of Expiration. The Company shall give written notice to the Warrantheolders specifically advising them of the Expiration Date and of their right to exercise the Warrants not more than one hundred eighty (180) days and not less than ninety (90) days before the Expiration Date. If such written notice is not so given, the Expiration Date shall automatically be extended until ninety (90) days after the date that the Company gives the Warrantheolders such written notice.

(b) Notices. All notices hereunder shall be in writing and shall be deemed to have been given five (5) days after being mailed by certified mail, addressed to the address below stated of the party to which notice is given, or to such changed address as such party may have fixed by notice:

To the Company: Allied Healthcare Products, Inc.
1720 Sublette Avenue
St. Louis, Missouri 63110
Attention: Mr. Barry Baker
Fax No.: (314) 771-0650

With copies to: Discckstein, Shapiro, Morin & Oskinsky, LLP
2101 L Street NW
Washington, D.C. 20037
Attention: Allen B. Goldstein, Esq.
Fax No.: (202) 887-0689

To the Clayton Management Company
Warrantheolders 200 North Broadway; Suite 825
or holder of St. Louis, Missouri 63102
Warrant Shares: Fax No.: (314) 421-3657

With a copy (which Greensfelder, Hemker & Gale, P.C.
shall not constitute 10 South Broadway; Suite 2000
notice) to: St. Louis, Missouri 63102
Attention: Joseph D. Lehrer, Esq.
Fax No.: (314) 241-8624

provided, however, that any notice of change of address shall be effective only upon receipt.

(c) Successors and Assigns. This Warrant shall be binding upon and inure to the benefit of the Company, Foothill, the Warrantheolders and the holders of Warrant shares and the

successors, assigns and transferees of the Company, Woodbourne, the Warrantholders and the holders of Warrant Shares.

(d) Attorneys' Fees. The Company agrees to pay, on demand, all attorneys' fees (including attorneys' fees incurred pursuant to proceedings arising under the Bankruptcy Code) and all other costs and expenses which may be incurred by Woodbourne, the Warrantholders and the holders of Warrant Shares in connection with any amendment to this Warrant and/or in connection with the enforcement of this Warrant or in any way arising out of, or consequential to the protection, assertion, or enforcement of the Obligations under the Loan Agreement (or any security therefor), whether or not suit is brought.

(e) Entire Agreement: Amendments and Waivers. This Warrant sets forth the entire understanding of the parties with respect to the transactions contemplated hereby. The failure of any party to seek redress for the violation or to insist upon the strict performance of any term of this Warrant shall not constitute a waiver of such term and such party shall be entitled to enforce such term without regard to such forbearance. This Warrant may be amended, the Company may take any action herein prohibited or omit to take action herein required to be performed by it, and any breach of or compliance with any covenant, agreement, warranty or representation may be waived, only if the Company has obtained the written consent or written waiver of the majority in interest of the Warrantholders, and then such consent or waiver shall be effective only in the specific instance and for the specific purpose for which given.

(f) Severability. If any term of this Warrant as applied to any person or to any circumstance is prohibited, void, invalid or unenforceable in any jurisdiction, such term shall, as to such jurisdiction, be ineffective to the extent of such prohibition or invalidity without in any way affecting any other term of this Warrant or affecting the validity or enforceability of this Warrant or of such provision in any other jurisdiction.

(g) Headings. The headings in this Warrant are inserted only for convenience of reference and shall not be used in the construction of any of its terms.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officers as of the date first set forth above.

ALLIED HEALTHCARE PRODUCTS, INC.,
a Delaware corporation

By: /s/ Barry F. Baker

Name: Barry F. Baker
Title: Vice President-Finance

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND MUST BE HELD INDEFINITELY UNLESS SUBSEQUENTLY REGISTERED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR DISPOSED OF PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS.

WARRANT

Company: Allied Healthcare Products, Inc., a Delaware corporation
Number of Shares: 1,562
Class of Stock: Common Stock
Initial Exercise Price: \$7.025 per share
Issued as of: August 7, 1997
Expiration Date: August 7, 2002

FOR VALUE RECEIVED, the adequacy and receipt of which is hereby acknowledged, ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation, hereby certifies that DONALD E. NICKELSON ("Nickelson"), an individual, and his successors and assigns, are entitled to purchase from the Company at any time and from time to time on and after August 7, 1998, until 12:00 midnight California local time on the Expiration Date at an initial exercise price of SEVEN AND 025/1000 DOLLARS (\$7.025) per share of Common Stock One Thousand Five Hundred Sixty-Two (1,562) fully paid and nonassessable shares of Common Stock of the Company on the terms and conditions hereinafter set forth.

The number of such shares of Common Stock and the Exercise Price are subject to adjustment as provided in this Warrant. Anything contained in this Warrant to the contrary notwithstanding, the number of shares of Common Stock which may be issued upon exercise of this Warrant by any Regulated Warrantholder shall never exceed such amount (the "Maximum Amount") as may be permitted under the Bank Holding Company Act, or any successor statute, or under any other federal or state banking laws or regulations to which such Regulated Warrantholder may be subject at the time of such exercise. If the number of shares of Common Stock which may be issued upon exercise of this Warrant exceeds the Maximum Amount, the number of shares of Common Stock into which this Warrant may be exercised will be reduced to the Maximum Amount and the Company will pay

to Foothill by check or in cash such amount that equals the Exercise Price multiplied by the number of shares of Common Stock by which the Warrant is reduced pursuant to this paragraph.

1. CERTAIN DEFINITIONS. As used in this Warrant, the following terms have the following definitions:

"Additional Shares of Common Stock" means all shares of Common Stock issued or issuable by the Company after the date of this Warrant.

"Common Stock" means the Company's Common Stock, par value \$.01 per share, and includes any common stock of the Company of any class or classes resulting from any reclassification or reclassifications thereof which is not limited to a fixed sum or percentage of par value in respect of the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company.

"Company" means Allied Healthcare Products, Inc., a Delaware corporation.

"Convertible Securities" means evidence of indebtedness, shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Additional Shares of Common Stock.

"Current Market Price" of a share of Common Stock or of any other security as of a relevant date means: (i) the Fair Value thereof as determined in accordance with clause (ii) of the definition of Fair Value with respect to Common Stock or any other security that is not listed on a national securities exchange or traded on the over-the-counter market or quoted on NASDAQ, and (ii) the average of the daily closing prices for the ten (10) trading days before such date (excluding any trades which are not bona fide arm's length transactions) with respect to Common Stock or any other security that is listed on a national securities exchange or traded on the over-the-counter market or quoted on NASDAQ. The closing price for each day shall be (i) the last sale price of shares of Common Stock or such other security, regular way, on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices thereof on such date, in each case as officially reported on the principal national securities exchange on which the same are then listed or admitted to trading, or (ii) if no shares of Common Stock or if no securities of the same class as such other security are then listed or admitted to trading on any national securities exchange, the average of the reported closing bid and asked prices thereof on such date in the over-the-counter market as shown by the National Association of Securities Dealers automated quotation system or, if no shares of Common Stock or if no securities of the same class as such other security are then quoted in such system, as published by the National Quotation Bureau, Incorporated or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Warrantholders.

"Exchange Act" means the Securities Act of 1934.

"Exercise Period" means the period commencing on August 7, 1998 and ending at 12:00 midnight California local time on the Expiration Date.

"Exercise Price" means initially Seven and 025/1000 Dollars (\$7.025) per share, subject to adjustment as provided in this Warrant.

"Expiration Date" means August 7, 2002.

"Fair Value" means: (i) with respect to a share of Common Stock or any other security, the Current Market Price thereof, and (ii) with respect to any other property, assets, business or entity, an amount determined in accordance with the following procedure: the Company and the holders of the Warrants and Warrant Shares, as applicable, shall use their best efforts to mutually agree to a determination of Fair Value within ten (10) days of the date of the event requiring that such a determination be made. If the Company and such holders are unable to reach agreement within said ten (10) day period, the Company and such holders shall within ten (10) days of the expiration of the ten (10) day period referred to above each retain a separate independent investment banking firm (which firm shall not be the investment banking firm regularly retained by the Company). If either the Company or such holders fails to retain such an investment banking firm during such period, then the independent investment banking firm retained by such holders or the Company, as the case may be, acting along, shall take the actions outlined below. Such firms shall determine (within thirty (30) days of their being retained) the Fair Value of the security, property, assets, business or entity, as the case may be, in question and deliver their opinion in writing to the Company and to such holders. If such firms cannot jointly make the determination, then, unless otherwise directed by agreement of the Company and such holders, such firms, in their sole discretion, shall choose another investment banking firm independent of the Company and such holders, which firm shall make the determination and render an opinion as promptly as practicable. In either case, the determination so made shall be conclusive and binding on the Company and such holders. The fees and expenses of any such determination made by any and all such independent investment banking firms shall be paid by the Company. If there is more than one holder of Warrants, and/or Warrant Shares entitled to a determination of Fair Value in any particular instance, each action to be taken by the holders of such Warrants and/or Warrant Shares under this Section shall be taken by a majority in interest of such holders and the action taken by such majority (including as to any mutual agreement with the Company with respect to Fair Value and as to any selection of investment banking firms) shall be binding upon all such holders. In the case of a determination of the Fair Value per share of Common Stock, the Company and such holders shall not take into consideration, and shall instruct all such investment banking firms not to take into consideration, any premium for shares representing control of the Company, any discount for any minority interest therein or any restrictions on transfer under applicable federal and state securities laws or otherwise.

"Foothill" means Foothill Capital Corporation, a California corporation.

"Indemnified Party" and "Indemnifying Party" have the meanings set forth in Section 11(e)(iii).

"Loan Agreement" means that certain Loan and Security Agreement of even date herewith among the Company, its subsidiaries named therein and Foothill.

"Registrable Stock" means: (i) all Warrant Shares which are issuable to the Warranholders pursuant to the Warrants, whether or not the Warrants have in fact been exercised and whether or not such Warrant Shares have in fact been issued, (ii) all Warrant Shares acquired by the Warranholders pursuant to the Warrants, (iii) any shares of Common Stock, whether or not such shares of Common Stock have in fact been issued, and stock or other securities of the Company issued upon conversion of, in a stock split or reclassification of, or a stock dividend or other distribution on, or in substitution or exchange for, or otherwise in connection with, such Warrant Shares. For purposes of Section 11, a Warranholder of record shall be treated as the record holder of the related Warrant Shares and other securities issuable pursuant to the Warrants.

"Regulated Warranholder" means any Warranholder which is, or the part of which is, subject to the Bank Holding Company Act, or any successor statute, or any other federal or state banking laws and regulations.

"Securities Act" means the Securities Act of 1933, as amended.

"Warrant(s)" means this Warrant and any warrants issued in exchange or replacement of this Warrant or upon transfer hereof.

"Warranholder(s)" means Nickelson and his successors and assigns.

"Warrant Share" means shares of Common Stock issuable to Warranholders pursuant to the Warrants.

2. EXERCISE OF WARRANT. This Warrant may be exercised, in whole or in part, at any time and from time to time during the Exercise Period by written notice to the Company and upon payment to the Company of the Exercise Price (subject to adjustment as provided herein) for the shares of Common Stock in respect of which the Warrant is exercised.

3. FORM OF PAYMENT OF EXERCISE PRICE. Anything contained herein to the contrary notwithstanding, at the option of the Warranholders, the Exercise Price may be paid in any one or a combination of the following forms: (a) by wire transfer to the Company, (b) by the Warranholder's check to the Company, (c) by the cancellation of any indebtedness owed by the Company and/or any subsidiaries of the Company to the Warranholder, and/or (d) by the surrender to the Company of Warrants, Warrant Shares, Common Stock and/or other securities of the Company and/or any subsidiaries of the Company having a Fair Value equal to the Exercise Price.

4. CASHLESS EXERCISE/CONVERSION; APPRECIATION RIGHTS.

(a) Cashless Exercise/Conversion. In lieu of exercising this Warrant as specified in Sections 2 and 3 above, the Warranholders may from time to time at the Warranholders' option convert this Warrant, in whole or in part, into a number of shares of Common Stock of the Company determined by dividing (A) the aggregate Fair Value of such shares or other securities otherwise issuable upon exercise of this Warrant minus the aggregate Exercise Price of such shares by (B) the Fair Value of one such share.

(b) Appreciation Right. At any time on or after August 7, 2000, in lieu of exercising this Warrant as specified in Sections 2 and 3 above, the Warranholders may from time to time at the Warranholders' option require the Company to purchase this Warrant or any portion hereof, for cash, at a price equal to the then Fair Value of the Common Stock issuable upon exercise of this Warrant less the Exercise Price. Upon the Warranholders' exercise of this option, the Company shall promptly wire transfer to the Warranholders such amount in immediately available funds as is required under this Section 4(b), but in no event later than five (5) business days after the exercise of such option, in immediately available funds.

5. CERTIFICATES FOR WARRANT SHARES; NEW WARRANT. The Company agrees that the Warrant Shares shall be deemed to have been issued to the Warranholders as the record owner of such Warrant Shares as of the close of business on the date on which payment for such Warrant Shares has been made (or deemed to be made by conversion) in accordance with the terms of this Warrant. Certificates for the Warrant Shares shall be delivered to the Warranholders within a reasonable time, not exceeding five (5) days, after this Warrant has been exercised or converted. A new Warrant representing the number of shares, if any, with respect to which this Warrant remains exercisable also shall be issued to the Warranholders within such time so long as this Warrant has been surrendered to the Company at the time of exercise.

6. ADJUSTMENT OF EXERCISE PRICE, NUMBER OF SHARES AND NATURE OF SECURITIES ISSUABLE UPON EXERCISE OF WARRANTS.

(a) Exercise Price; Adjustment of Number of Shares. The Exercise Price shall be subject to adjustment from time to time as hereinafter provided. Upon each adjustment of the Exercise Price, the Warranholders shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, a number of shares determined by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment.

(b) Adjustment of Exercise Price Upon Issuance of Common Stock. If and whenever after the date hereof the Company shall issue or sell Additional Shares of Common Stock without consideration or for a consideration per share less than the Current Market Price or the Exercise Price then in effect immediately prior to the issuance or sale of such shares, then the Exercise

Price in effect immediately prior to such issuance or sale of such shares shall be reduced to a number which shall be calculated by dividing (A) an amount equal to the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing Exercise Price plus (2) the aggregate consideration, if any, received by the Company upon such issue or sale, by (B) the total number of shares of Common Stock outstanding immediately after such issue or sale.

No adjustment of the Exercise Price, however, shall be made in an amount less than \$.01 per share, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to \$.01 per share or more.

The provisions of this Section 6(b) shall not apply to (i) any Additional Shares of Common Stock which are distributed to holders of Common Stock pursuant to a stock split for which an adjustment is provided for under Section 6(f), or (ii) any additional shares of Common Stock which are issued upon exercise of options to purchase Common Stock outstanding as of the date of issuance of this Warrant.

(c) Further Provisions for Adjustment of Exercise Price Upon Issuance of Additional Shares of Common Stock and Convertible Securities. For purposes of Section 6(b), the following provisions shall also be applicable:

(i) in case at any time on or after the date hereof, the Company shall declare any dividend, or authorize any other distribution, upon any stock of the Company of any class, payable in Additional Shares of Common Stock or by the issuance of Convertible Securities, such declaration or distribution shall be deemed to have been issued or sold (as of the record date) without consideration and shall thereby cause an adjustment in the Exercise Price as required by Section 6(b).

(ii) (A) In case at any time on or after the date hereof, the Company shall in any manner issue or sell any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, there shall be determined the price per share for which Additional Shares of Common Stock are issuable upon the conversion or exchange thereof, such determination to be made by dividing (a) the total amount received or receivable by the Company as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof by (b) the maximum aggregate number of Additional Shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities for such minimum aggregate amount of additional consideration; and such issue or sale shall be deemed to be an issue or sale for cash (as of the date of issue or sale of such Convertible Securities) of such maximum number of Additional Shares of Common Stock at the price per share so determined, and shall thereby cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b) hereof.

(B) If such Convertible Securities shall by their terms provide for an increase or increases, with the passage of time, in the amount of additional consideration, if any, payable to the Company, or in the rate of exchange upon the conversion or exchange thereof, the adjusted Exercise Price shall, upon any such increase becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made upon the issuance of such Convertible Securities been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock theretofore actually delivered upon the exercise of such Convertible Securities, (b) the issuance of all Common Stock, all Convertible Securities and all rights and options to purchase Common Stock issued after the issuance of such Convertible Securities, and (c) the original issuance at the time of such change of such Convertible Securities then still outstanding; provided, however, that any such increase or increases shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the Convertible Securities.

(C) If any rights of conversion or exchange evidenced by such Convertible Securities shall expire without having been exercised, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment with respect to such Convertible Securities been made on the basis that the only Additional shares of Common Stock issued or sold were those issued upon the conversion or exchange of such Convertible Securities, and that they were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of such Convertible Securities.

(iii) (A) In case at any time on or after the date hereof, the Company shall in any manner grant or issue any rights or options to subscribe for purchase or otherwise acquire Additional Shares of Common Stock, whether or not such rights or options are immediately exercisable, there shall be determined the price per share for such Additional Shares of Common Stock are issuable upon the exercise of such rights or options, such determination to be made by dividing (a) the total amount, if any, received or receivable by the Company as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of such rights or options if the maximum number of Additional Shares were issued pursuant to such rights or options for such minimum aggregate amount of additional consideration, by (b) the maximum number of Additional Shares of Common Stock of the Company issuable upon the exercise of all such rights or options for such minimum aggregate amount of additional consideration; and the granting of such rights or options shall be deemed to be an issue or sale for cash (as of the date of the granting of such rights or options) of such maximum number of Additional Shares of Common Stock at the price per share so determined, and shall thereby cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b) hereof.

(B) If such rights or options shall by their terms provide for an increase or increases, with passage of time, in the amount of additional consideration payable to the Company upon the exercise thereof, the adjusted Exercise Price shall, upon any such increases

becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made upon the issuance of such rights or options been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock theretofore actually delivered upon the exercise of such rights or options, (b) the issuance of all Common Stock, all rights and options and all Convertible Securities issued after the issuance of such rights and options, and (c) the original issuance at the time of such change of any such rights or options then still outstanding; provided, however, that any such increase or increases in the Exercise Price shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the grant of such rights or options.

(C) If any such rights or options shall expire without having been exercised, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment with respect to such rights or options been made on the basis that the only Additional Shares of Common Stock so issued or sold were those issued or sold upon the exercise of such rights or options and that they were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of such rights or options.

(iv) (A) In case at any time on or after the date hereof, the Company shall grant any rights or options to subscribe for, purchase or otherwise acquire Convertible Securities, there shall be determined the price per share for which Additional Shares of Common Stock are issuable upon the exchange or conversion of such Convertible Securities if such rights or options were exercised, such determination to be made by dividing (a) the total amount, if any, received or receivable by the Company as consideration for the issuance of such rights or options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of such rights or options if the maximum number of Convertible Securities were issued pursuant to such rights or options for such minimum aggregate amount of additional consideration, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exchange or conversion of such Convertible Securities if the maximum number of Additional Shares were issued pursuant to such Convertible Securities for such minimum aggregate amount of additional consideration, by (b) the maximum aggregate number of Additional Shares of Common Stock issuable upon the exchange or conversion of the Convertible Securities for such minimum aggregate amount of additional consideration; and the issue or sale of such rights or options shall be deemed to be an issue or sale for cash (as of the date of the granting of such rights or options) of such minimum number of Additional Shares of Common Stock at the price per share so determined, and thereby shall cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b).

(B) If such rights or options to subscribe for or otherwise acquire Convertible Securities shall by their terms provide for an increase or increases, with the passage of time, in the amount of additional consideration payable to the Company upon the exercise, exchange or conversion thereof, the adjusted Exercise Price shall, forthwith upon any such increase becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made

upon the issuances of such rights or options been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock therefore actually delivered upon the exchange or conversion of such Convertible Securities, (b) the issuances of all Common Stock and all rights, options and Convertible Securities issued after the issuance of such rights and options and (c) the original issuances at the time of such change of any such rights, options and Convertible Securities issued upon exercise of such rights or options which are then still outstanding; provided, however, that any such increase or increases shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the grant of such rights or options.

(C) If any such rights, options or rights of conversion or exchange of such convertible Securities shall expire without having been exercised, exchanged or converted, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment been made with respect to such rights, options or rights of conversion or exchange of such Convertible Securities on the basis that the only Additional Shares of Common Stock so issued or sold were those issued or sold upon the exercise of such rights or options and exchange or conversion of such Convertible Securities and that they were issued or sold for the consideration actually received by the Company upon exercise of such rights and options and exchange or conversion of such Convertible Securities, plus the consideration if any, actually received by the Company for the granting of such rights, options or Convertible Securities.

(v) In any case where an adjustment has been made in the Exercise Price upon the issuance of Convertible Securities or any rights or options to purchase Convertible Securities or Additional Shares of Common Stock pursuant to this Section 6(c), no further adjustment shall be made at the time of the conversion of any such Convertible Securities or at the time of the exercise of any such rights or options.

(vi) In case at any time on or after the issuance of this Warrant any shares of Common Stock or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash payable to the company shall be deemed to be the Fair Value of such consideration. Whether or not the consideration so received is cash, the amount thereof shall be determined after deducting therefrom any expenses incurred or any underwriting commissions or concessions or discounts paid or allowed by the Company in connection therewith.

(vii) In case at any time the company shall fix a record date of the holders of its Common Stock for the purpose of entitling them (a) to receive a dividend or other distribution payable in Common Stock, Convertible Securities or rights or options to purchase either thereof, or (b) to subscribe for or purchase Common Stock, Convertible Securities or rights or options to purchase either thereof, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed, pursuant to this Section 6(c), to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(viii) The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock for the purposes of this Section 6(c).

(d) Reorganization, Reclassification, Consolidation, Merger or Sale. If any capital reorganization or reclassification of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive cash, stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby the Warrantheolders shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant upon exercise of this Warrant and in lieu of the shares of the Common Stock of the Company immediately therefore purchasable and receivable upon the exercise of the rights represented hereby, such cash, shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of Common Stock equal to the number of shares of such Common Stock immediately therefore purchasable and receivable upon the exercise of the rights represented hereby, and in any such case appropriate provision shall be made with respect to the rights and interest of the Warrantheolders to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any consolidation, merger or sale of all or substantially all of the assets of the Company unless prior to or simultaneous with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation, merger or purchase of such assets shall assume, by written instrument executed and mailed or delivered to the Warrantheolders, the obligation to deliver to such Warrantheolders such cash (or cash equivalent), shares of stock, securities or assets as, in accordance with the foregoing provisions, the Warrantheolders may be entitled to receive and containing the express assumption of such successor corporation of the due and punctual performance and observance of each provision of this Warrant to be performed and observed by the Company and of all liabilities and obligations of the Company hereunder; provided, however, in the case of any consolidation or merger of the Company with another corporation or the sale of all or substantially all of its assets to another corporation effected in such a manner that the holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, at the election of each Warrantheolder, in lieu of receiving such stock, securities or assets, such Warrantheolder shall receive cash equal to the Fair Value of the Common Stock issuable upon exercise of the Warrant, less the Exercise Price payable upon exercise thereof.

In case any Additional Shares of Common Stock or Convertible Securities or any rights or options to purchase any Additional Shares of Common Stock or Convertible Securities shall be issued in connection with any merger of another corporation into the Company, the amount of consideration therefor shall be deemed to be the Fair Value of such portion of the assets of such

merged corporation as the Board of Directors of the Company shall in good faith determine to be attributable to such Additional Shares of Common Stock, Convertible Securities or rights or options, as the case may be, and the Exercise Price shall be adjusted in accordance with this Section 6(d).

(e) Company to Prevent Dilution. In case at any time or from time to time conditions arise by reason of action taken by the Company which are not adequately covered by the provisions of this Section 6, and which might materially and adversely affect the exercise rights of the Warrantheolders under any provision of this Warrant, unless the adjustment necessary shall be agreed upon by the Company and the Warrantheolders, the Board of Directors of the Company shall appoint a firm of independent certified public accountants of recognized national standing (who have not been employed by the Company within the last five years), acceptable to the Warrantheolders, what the Company's expense shall give their opinion upon the adjustment, if any, on a basis consistent with the standards established in the other provisions of this Section 6, necessary with respect to the Exercise Price and the number of shares purchasable upon exercise of the Warrants, so as to preserve, without dilution, the exercise rights of the Warrantheolders. Upon receipt of such opinion, such Board of Directors shall forthwith make the adjustments described therein.

(f) Stock Splits and Reverse Splits. In case at any time the Company shall subdivide its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of shares of Common Stock purchasable pursuant to this Warrant immediately prior to such subdivision shall be proportionately increased, and conversely, in case at any time the Company shall combine its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of shares of Common Stock purchasable upon the exercise of this Warrant immediately prior to such combination shall be proportionately reduced.

(g) Dissolution, Liquidation and Winding-Up. In case the Company shall, at any time prior to the expiration of this Warrant, dissolve, liquidate or wind up its affairs, the Warrantheolders shall be entitled, upon the exercise of this Warrant, to receive, in lieu of the shares of Common Stock of the Company which such Warrantheolders would have been entitled to receive, the same kind and amount of assets as would have been issued, distributed or paid to such Warrantheolders upon any such dissolution, liquidation or winding up with respect to such shares of Common Stock of the Company, had such Warrantheolders been the holders of record of the Warrant Shares receivable upon the exercise of this Warrant on the record date for the determination of those persons entitled to receive any such liquidating distribution. After any such dissolution, liquidation or winding up which shall result in any cash distribution in excess of the Exercise Price provided for by this Warrant, the Warrantheolders may, at each such Warrantheolder's option, exercise the same without making payment of the Exercise Price, and in such case the Company shall, upon the distribution to said Warrantheolders, consider that said Exercise Price has been paid in full to it and in making settlement to said Warrantheolders, shall deduct from the amount payable to such Warrantheolders an amount equal to such Exercise Price.

(h) Noncash Consideration. In case any Additional Shares of Common Stock or Convertible Securities or any rights or options to purchase any Additional Shares of Common Stock or Convertible Securities shall be issued for a consideration in a form other than cash, the amount of such consideration shall be deemed to be the Fair Value thereof.

(i) Accountants' Certificate. In each case of an adjustment in the number of shares of Common Stock or other stock, securities or property receivable on the exercise of the Warrants, the Company at its expense shall cause independent public accountants of recognized standing selected by the Company and acceptable to the Warrantheolders to compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment and showing in detail the facts upon which such adjustment is based, including a statement of (a) the consideration received or to be received by the Company for any Additional Shares of Common Stock, rights, options or Convertible Securities issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock of each class outstanding or deemed to be outstanding, (c) the adjusted Exercise Price and (d) the number of shares issuable upon exercise of this Warrant. The Company will forthwith mail a copy of each such certificate to each Warrantheolder.

7. SPECIAL AGREEMENTS OF THE COMPANY.

(a) Reservation of Shares. The Company covenants and agrees that all Warrant Shares will, upon issuance, be validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and from all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant. The Company hereby covenants and agrees to take all such action as may be necessary to assure that the par value per share of the Common Stock is at all times equal to or less than the Exercise Price.

(b) Avoidance of Certain Actions. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, issue or sale of securities or otherwise, avoid or take any action which would have the effect of avoiding the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in carrying out all of the provisions of this Warrant and in taking all of such action as may be necessary or appropriate in order to protect the rights of the Warrantheolders against dilution or other impairment of their rights hereunder.

(c) Securing Governmental Approvals. If any shares of Common Stock required to be reserved for the purposes of exercise of this Warrant require registration with or approval of any governmental authority under any federal law (other than the Securities Act) or under any state law before such shares may be issued upon exercise of this Warrant, the Company will, at its expense, as expeditiously as possible, cause such shares to be duly registered or approved, as the case may be.

(d) Listing on Securities Exchanges; Registration. If, and so long as, any class of the Company's Common Stock shall be listed on any national securities exchange (as defined in the Exchange Act), the Company will, at its expense, obtain and maintain the approval for listing upon official notice of issuance of all Warrant Shares and maintain the listing of Warrant Shares after their issuance; and the Company will so list on such national securities exchange, will register under the Exchange Act (or any similar statute then in effect), and will maintain such listing of, any other securities that at any time are issuable upon exercise of this Warrant if and at the time any securities of the same class shall be listed on such national securities exchange by the Company.

(e) Information Rights. So long as the Warrantholders hold this Warrant and/or any of the Warrant Shares, the Company shall deliver to the Warrantholders (i) promptly after mailing, copies of all communications to the shareholders of the Company, (ii) within ninety (90) days after the end of each fiscal year of the Company, the annual audited financial statements of the Company certified by the independent public accountants of recognized standing, and (iii) within forty-five (45) days after the end of each of the first three quarters of each fiscal year, the Company's quarterly, unaudited financial statements.

(f) Restrictions on Public Sale by the Company. In the event of an underwritten offering by the Company made pursuant to a registration statement filed pursuant to Sections 11(a) or 11(b) the Company will not effect any public or private sale or distribution of its convertible debt or equity securities, including a sale under Regulation D of the Securities Act, for such period of time (not to exceed 90 days) as may be requested by the underwriters subject to customary exceptions; and the Company shall cause each holder of its privately placed convertible debt or equity securities issued by it at any time on or after the date of this Warrant to agree not to effect any public sale or distribution of any such securities during such period, including a sale pursuant to Rule 144 or Rule 144A under the Securities Act.

(g) Preemptive Rights. In the event the Company offers to the Company's shareholders the right to purchase any securities of the Company, then all shares of Common Stock issuable pursuant to the Warrants shall be deemed to be issued and outstanding and held by the Warrantholders and the Warrantholders shall be entitled to participate in such rights offering.

(h) Compliance with Law. The Company shall comply with all applicable laws, rules and regulations of the United States and of all states, municipalities and agencies and of any other jurisdiction applicable to the Company and shall do all things necessary to preserve, renew and keep in full force and effect and in good standing its corporate existence and authority necessary to continue its business.

8. FRACTIONAL SHARES. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon exercise hereof, the Company shall pay to the Warrantholder an amount in cash equal to such fraction multiplied by the Current Market Value of one share of Common Stock.

9. NOTICES OF STOCK DIVIDENDS, SUBSCRIPTIONS, RECLASSIFICATIONS, CONSOLIDATIONS, MERGERS, ETC. If at any time: (i) the Company shall declare a cash dividend (or an increase in the then existing dividend rate), or declare a dividend on Common Stock payable otherwise than in cash out of its net earnings after taxes for the prior fiscal year; or (ii) the Company shall authorize the granting to the holders of Common Stock of rights to subscribe for or purchase any shares of capital stock of any class or of any other rights; or (iii) there shall be any capital reorganization, or reclassification, or redemption of the capital stock of the Company, or consolidation or merger of the Company with or sale of all or substantially all of its assets to, another corporation or firm; or (iv) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company, then the Company shall give to the Warrantholders at the addresses of such Warrantholders as shown on the books of the Company, at least twenty (20) days prior to the applicable record date hereinafter specified, a written notice summarizing such action or event and stating the record date for any such dividend or rights (or, if a record date is not to be selected, the date as of which the holders of Common Stock of record entitled to such dividend or rights are to be determined), the date on which any such reorganization, reclassification, consolidation, merger, sale of assets, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected the holders of Common Stock of record shall be entitled to effect any exchange of their shares of Common Stock for cash (or cash equivalent), securities or other property deliverable upon any such reorganization, reclassification, consolidation, merger, sale of assets, dissolution, liquidation or winding up.

10. REGISTERED HOLDER; TRANSFER OF WARRANTS OR WARRANT SHARES.

(a) Maintenance of Registered books; Ownership of this Warrant. The Company shall keep at its principal office a register in which the Company shall provide for the registration, transfer and change of this Warrant. The Company shall not at any time, except upon the dissolution, liquidation or winding-up of the Company, close such register so as to result in preventing or delaying the exercise or transfer of this Warrant.

(b) Exchange and Replacement. This Warrant is exchangeable upon surrender hereof by the registered holder to the Company at its principal office for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares purchasable hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by said registered holder at the time of surrender. This Warrant and all rights hereunder are transferable in whole or in part upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and new Warrants shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of the transferee(s) upon surrender of this Warrant, duly endorsed, to said office of the Company. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor, in lieu of this Warrant, without requiring the posting of any bond or the giving of any other security. This Warrant shall be promptly canceled by the Company upon the surrender hereof in connection with any exchange, transfer or replacement.

The Company shall pay all expenses, taxes and other charges payable in connection with the preparation, execution and delivery of Warrants pursuant to this Section 10.

(c) Warrants and Warrant Shares Not Registered. The holder of this Warrant, by accepting this Warrant, represents and acknowledges that this Warrant and the Warrant Shares are not being registered under the Securities Act on the grounds that the issuance of this Warrant and the offering and sale of such Warrant Shares are exempt from registration under Section 4(2) of the Securities Act as not involving any public offering.

11. REGISTRATION.

(a) Required Registration. Whenever the Company shall receive a written request therefor from any holder or holders of at least 50% of the Registrable Stock, the Company shall promptly prepare and file a registration statement under the Securities Act covering the Registrable Stock which is the subject of such request and shall use its best efforts to cause such registration statement to become effective as expeditiously as possible; provided that the Company's obligations under this Section 11(a) shall be limited to one required registration only. Upon the receipt of such request, the Company shall promptly give written notice to all holders of Registrable Stock that such registration is to be effected. The Company shall include in such registration statement such Registrable Stock for which it has received written requests to register such shares by the holders thereof within thirty (30) days after the effectiveness of the Company's written notice to such other holders. Except as hereinafter expressly provided, without the written consent of the holders of a majority of the shares of Registrable Stock for which registration has been requested pursuant to this Section, neither the Company nor any other holder of securities of the Company may include securities in such registration.

(b) Incidental Registration. Each time the Company shall determine to file a registration statement under the Securities Act (other than on Form S-8 or Form S-4) in connection with the proposed offer and sale for money of any of its securities by it or by any of its securities holders, the company will give written notice of its determination to all holders of Registrable Stock. Upon written request of a holder of any Registrable Stock, the Company will cause all such Registrable Stock, the holders of which have so requested registration thereof, to be included in such registration statement, all to the extent requisite to permit the sale or other disposition by the prospective seller or sellers of the Registrable Stock to be so registered in accordance with the terms of the proposed offering. If the registration statement is to cover an underwritten distribution, the Company shall use its best efforts to cause the Registrable Stock requested for inclusion pursuant to this Section 11(b) to be included in the underwriting on the same terms and conditions as the securities otherwise being sold through the underwriters. If, in the good faith judgment of the managing underwriter of such public offering, the inclusion of all the Registrable Stock requested to be registered would materially and adversely affect the successful marketing of the other shares proposed to be offered, then the amount of the Registrable Stock to be included in the offering shall be reduced and the Registrable Stock and the other shares to be offered shall participate in such offering as follows: the shares to be sold by the company, the Registrable Stock to be included in

such offering and the other shares of Common Stock to be included in such offering shall each be reduced pr rata in proportion to the number of shares of Common Stock proposed to be included in such offering by each holder of such shares and by the Company.

(c) Registration Procedures. If and whenever the Company is required by the provisions of Section 11(a) or 11(b) to effect the registration of Registrable Stock under the Securities Act, the Company will, at its expense, expeditiously as possible:

(i) In accordance with the Securities Act and the rules and regulations of the Commission, prepare and file with the Commission a registration statement on the form of registration statement appropriate with respect to such securities and use its best efforts to cause such registration statement to become and remain effective until the securities covered by such registration statement have been sold, and prepare and file with the Commission such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective and such registration statement and prospectus accurate and complete until the securities covered by such registration statement have been sold;

(ii) If the offering is to be underwritten, in whole or in part, enter into a written underwriting agreement with the holders of the Registrable Stock participating in such offering and the underwriter in form and substance reasonably satisfactory to the managing underwriter of the public offering and the holders of the Registrable Stock participating in such offering;

(iii) Furnish to the holders of securities participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus and such other documents as such underwriters and holders may reasonably request in order to facilitate the public offering of such securities;

(iv) Use its best efforts to register or qualify the securities covered by such registration statement under such state securities or blue sky laws of such jurisdictions as such participating holders and underwriters may reasonably request.

(v) Notify the holders participating in such registration, promptly after it shall receive notice thereof, of the date and time when such registration statement and each post-effective amendment thereto has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(vi) Notify such holders promptly of any request by the Commission for the amending or supplementing of such registration statement or prospectus or for additional information;

(vii) Prepare and file with the Commission, promptly upon the request of any such holders, any amendments or supplements to such registration statement or prospectus

which, in the opinion of counsel for such holders, is required under the Securities Act or the rules and regulations thereunder in connection with the distribution or the Registrable Stock by such holders;

(viii) Prepare and promptly file with the Commission, and promptly notify such holders of the filing of, such amendments or supplements to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event has occurred as the result of which any such prospectus or any other prospectus is then in effect may include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(ix) In case any of such holders or any underwriter for any such holders is required to deliver a prospectus at a time when the prospectus then in circulation is not in compliance with the Securities Act or the rules and regulations of the Commission, prepare promptly upon request such amendments or supplements to such registration statement and such prospectus as may be necessary in order for such prospectus to comply with the requirements of the Securities Act and such rules and regulations;

(x) Advise such holders, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Commission suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued;

(xi) If requested by the managing underwriter or underwriters or a holder of Registrable Stock being sold in connection with an underwritten offering, immediately incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriters and the holders of a majority of the Registrable Stock being sold agree should be included therein relating to the plan of distribution with respect to such Registrable Stock, including information with respect to the Registrable Stock being sold to such underwriters, the purchase price being paid for by such underwriters and with respect to any other terms of the underwritten (or best efforts underwritten) offering of the Registrable Stock to be sold in such offering; and make all required filings of such prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(xii) Cooperate with the selling holders of Registrable Stock and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Stock to be sold and not bearing any restrictive legends; and enable such Registrable Stock to be in such denominations and registered in such names as the managing underwriters may request at least two business days prior to any sale of Registrable Securities to the underwriters;

(xiii) Prepare a prospectus supplement or post-effective amendment to the registration statement or the related prospectus or any document incorporated therein by reference or file any other required documents so that, as thereafter delivered to the purchasers of the Registrable Stock, the prospectus will not contain an untrue statement of material fact or omit to state any material fact necessary to make the statements therein not misleading;

(xiv) Enter into such agreements (including an underwriting agreement) and take all such other actions in connection therewith in order to expedite or facilitate the disposition of such Registrable Securities and in such connection, whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration:

(A) make such representations and warranties to the holders of such Registrable Stock and the underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters in primary underwritten offerings;

(B) If an underwriting agreement is entered into, the same shall set forth in full the indemnification provisions and procedures of Section 11(e) hereof with respect to all parties to be indemnified pursuant to said Section; and

(C) The Company shall deliver such documents and certificates as may be requested by the holders of the majority of the Registrable Stock being sold and the managing underwriters, if any, to evidence compliance with the terms of this Section 11(c) and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

The above shall be done at each closing under such underwriting or similar agreement or as and to the extent required thereunder;

(xv) Make available for inspection by a representative of the holders of a majority of the Registrable Stock, any underwriter participating in any disposition pursuant to a registration statement, and any attorney or accountant retained by the sellers or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such representative, underwriter, attorney or accountant in connection with the preparation of the registration statement; provided, that any records, information or documents that are designated by the Company in writing as confidential shall be kept confidential by such persons unless disclosure of such records, information or documents is required by court or administrative order;

(xvi) Otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make generally available to the Company's security holders, earning statements satisfying the provisions of Section 11(a) of the Securities Act, no later than forty-five (45) days after the end of any twelve (12) month period (or ninety (90) days, if such a period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Stock is sold to

underwriters in an underwritten offering, or, if not sold to underwriters in such an offering, (ii) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the registration statement;

(xvii) Not file any amendment or supplement to such registration statement or prospectus to which a majority in interest of such holders has objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or the rules and regulations thereunder, after having been furnished with a copy thereof at least five (5) business days prior to the filing thereof; provided, however, that the failure of such holders or their counsel to review or object to any amendment or supplement to such registration statement or prospectus shall not affect the rights of such holders or any controlling person or persons thereof or any underwriter or underwriters therefor under Section 11(e) hereof; and

(xviii) At the request of any such holder (i) furnish to such holder on the effective date of the registration statement or, if such registration includes an underwritten public offering, at the closing provided for in the underwriting agreement; an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, addressed to the underwriters, if any, and to the holder or holders making such request, covering such matters with respect to the registration statement, the prospectus and each amendment or supplement thereto, proceedings under state and federal securities laws, other matters relating to the Company, the securities being registered and the offer and sale of such securities as are customarily the subject of opinions of issuer's counsel provided to underwriters in underwritten public offerings, and such opinion of counsel shall additionally cover such legal and factual matters with respect to the registration as such requesting holder or holders may reasonably request, and (ii) use its best efforts to furnish to such holder letters dated each such effective date and such closing date, from the independent certified public accountants of the Company, addressed to the underwriters, if any, and to the holder or holders making such request, stating that they are independent certified public accountants within the meaning of the Securities Act and dealing with such matters as the underwriters may request, or, if the offering is not underwritten, that in the opinion of such accountants the financial statements and other financial data of the Company included in the registration statement or the prospectus or any amendment or supplement thereto comply in all material respects with the applicable accounting requirements of the Securities Act, and additionally covering such other financial matters, including information as to the period ending immediately prior to the date of such letter with respect to the registration statement and prospectus, as such requesting holder or holders may reasonably request.

(d) Expenses of Registration. All expenses incident to the Company's performance of or compliance with this Warrant, including, without limitation, the following shall be borne by the Company, regardless of whether the registration statement becomes effective:

(i) All registration and filing fees (including those with respect to filings required to be made with the National Association of Securities Dealers, Inc.);

(ii) Fees and expenses of compliance with all securities or blue sky laws (including fees and disbursements of counsel for the underwriters or selling holders in connection with blue sky qualifications of the Registrable Stock and in determination of their eligibility for investment under the laws of such jurisdictions as the managing underwriters or holders of a majority of the Registrable Stock being sold may designate);

(iii) Printing, messenger, telephone and delivery expenses;

(iv) Fees and disbursements of counsel for the Company and for the sellers of the Registrable Stock as hereinafter provided;

(v) Fees and disbursements of all independent certified public accountants of the Company (including the expenses of any special audit and "comfort" letters required by or incident to such performance); and

(vi) Fees and expenses of other persons retained by the Company.

The Company will, in any event, pay its internal expenses (including without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing of securities to be registered on each securities exchange on which similar securities issued by the Company are then listed, rating agency fees and the fees and expenses of any person, including special experts, retained by the Company.

In connection with the registration statement required hereunder, the Company will reimburse the holders of Registrable Stock being registered pursuant to the registration statement for the reasonable fees and disbursements of not more than one counsel (or more than one counsel if conflict exists among such selling holders in the exercise of the reasonable judgment of counsel for the selling holders and counsel for the Company) chosen by the holders of a majority of such Registrable Stock.

(e) Indemnification.

(i) The Company hereby agrees to indemnify each of the holders of Registrable Stock against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, preliminary or final prospectus, or other document incident to any such registration, qualification or compliance (or in any related registration statement, notification or the like) or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of any rule or regulation promulgated under the Securities Act applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and to reimburse the holders of Registrable Stock (including

officers and directors of the same and controlling persons) for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, provided, however, that the Company will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by the holders of the Registrable Stock in an instrument duly executed by Warrantholders and stated to be specifically for use therein.

(ii) The holders of the Registrable Stock severally and not jointly agree to indemnify the Company and its officers and directors and each person, if any, who controls any thereof within the meaning of Section 15 of the Securities Act and their respective successors against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement of a material fact contained in any prospectus, offering circular or document incident to any registration, qualification or compliance relating to securities purchased pursuant to the Warrants (or in any related registration statement, notification or the like) or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading and will reimburse the Company and each other person indemnified pursuant to this subsection (ii) for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that this subsection (ii) shall apply only if (and only to the extent that) such statement or omission was made in reliance upon information (including, without limitation, written negative responses to inquiries) furnished to the Company by an instrument duly executed by Warrantholders and stated to be specifically for use in such prospectus, or other document (or related registration statement, notification or the like) or any amendment or supplement thereto.

(iii) Each party entitled to indemnification hereunder (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party (as such Indemnifying Party's expense) to assume the defense of any claim or litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be satisfactory to the Indemnified Party, and the Indemnified Party may participate in such defense at such party's expense, and provided, further, that the omission by any Indemnified Party of its obligations under this Section 11(e) except to the extent that the omission results in a failure of actual notice to the Indemnifying Party and such Indemnifying Party is materially damaged solely as a result of the failure to give notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to the entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(iv) If the indemnification provided for in this Section 11(e) is unavailable or insufficient to hold harmless an Indemnified Party in respect of any losses, claims, damages, liabilities, expenses or actions in respect thereof referred to herein, then the Indemnifying Party shall

contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages, liabilities, expenses or actions in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand, and the Indemnified Party on the other, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities, expenses or actions as well as any other relevant equitable considerations, including the failure to give the notice required hereunder. The relative fault of the Indemnifying Party and the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Warrantholders agree that it would not be just and equitable if contributions pursuant to this Section 11(e) were determined by pro rata allocation or by any other method of allocation which did not take account of the equitable considerations referred to above. The amount paid or payable to an Indemnified Party as a result of the losses, claims, damages, liabilities, or actions in respect thereof, referred to above, shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the contribution provisions of this Section 11(e), in no event shall the amount contributed by any seller of Registrable Stock exceed the aggregate net offering proceeds received by such seller from the sale of Registrable Stock to which such contribution or indemnification claim relates. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentations.

(v) The indemnification required by this Section 11(e) shall be made by periodic payments during the course of the investigation or defense, as and when bills are received or expenses incurred. Anything contained herein to the contrary notwithstanding, the maximum aggregate liability of any holder of Registrable Stock under this Section 11(e) shall not exceed the amount of the net proceeds actually received by such holder from the sale of its Registrable Stock pursuant to the registration, qualification, notification or compliance in respect of which such liability arose.

(f) Reporting Requirements Under Exchange Act. The Company shall maintain the registration of its Common Stock under Section 12 of the Exchange Act and shall keep effective such registration and shall timely file such information, documents and reports as the Commission may require or prescribe under Section 13 of the Exchange Act, or otherwise. The Company under the Securities Act, the Company shall (whether or not it shall then be required to do so) timely file such information, documents and reports as the Commission may require or prescribe under Section 13 or 15(d) (whichever is applicable) of the Exchange Act. The Company shall forthwith upon request furnish any holder of Registrable Stock (i) a written statement by the Company that it has complied with such reporting requirements; (ii) a copy of the most recent annual or quarterly report of the Company; and (iii) such other reports and documents filed by the Company that it has complied with the Commission as such holder may reasonably request in availing itself of an exemption for the sale of Registrable Stock without registration under the Securities Act. The Company acknowledges and agrees that the purpose of the requirements contained in this Section 11(f) is to enable any such

holder to comply with the current public information requirement contained in Rule 144 (or any other similar exemptive provision). In addition, the Company shall take such other measures and file such other information, documents and reports as shall hereafter be required by the Commission as a condition to the availability of Rule 144 and Rule 144A under the Securities Act (or any similar exemptive provision hereafter in effect).

(g) Stockholder Information. The Company may require each holder of Registrable Stock as to which any registration is to be effected pursuant to this Section 11 to furnish the Company such information with respect to such holder and the distribution of such Registrable Stock as shall be required by law or by the Commission in connection therewith.

12. REPRESENTATION AND WARRANTIES. The Company hereby represents and warrants to and covenants with Foothill, each Warrantholder, and each holder of Warrant Shares that:

(a) Organization and Capitalization of the Company. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. As of the date hereof, the authorized capital of the Company consists of 30,000,000 shares of Common Stock and 1,500,000 shares of Preferred Stock, of which 7,801,682 shares of Common Stock and no shares of Preferred Stock are issued and outstanding. The Company has, and at all times during the Exercise Period will have, reserved for issuance pursuant to the Warrants that number of shares of Common Stock that are issuable pursuant to the Warrants. No unissued shares of Common Stock are reserved for any purpose other than for issuance upon the exercise of the Warrants. As of the date hereof, the Company has not issued or agreed to issue any stock purchase rights, options, convertible securities, warrants (other than this Warrant) or any other securities or indebtedness convertible into shares of Common Stock, and there are no preemptive rights in effect with respect to the issuance of any shares of Common Stock. All the outstanding shares of Common Stock and Preferred Stock have been validly issued without violation of any preemptive or similar rights, are fully paid and nonassessable and have been issued in compliance with all federal and applicable state securities laws.

(b) Authority. The Company has full corporate power and authority to execute and deliver this Warrant, to issue the shares of Common Stock issuable upon exercise of this Warrant, and to perform all of its obligations hereunder, and the execution, delivery and performance hereof has been duly authorized by all necessary corporate action on its part. This Warrant has been duly executed on behalf of the Company and constitutes the legal, valid and binding obligation of the Company enforceable in accordance with its terms.

(c) No Legal Bar. Neither the execution, delivery or performance of this Warrant nor the issuance of the shares of Common Stock issuable upon exercise of this Warrant will (a) conflict with or result in a violation of the Certificate of Incorporation or By-Laws of the Company, (b) conflict with or result in a violation of any law, statute, regulation, order or decree applicable to the Company or any affiliate, (c) require any consent or authorization or filing with, or other act by or in respect of any governmental authority or (d) result in a breach of, constitute a default under or

constitute an event creating rights of acceleration, termination or cancellation under any mortgage, lease, contract, franchise, instrument or other agreement to which the Company is a party or by which it is bound.

(d) Validity of Shares. When issued upon the exercise of this Warrant as contemplated herein, the shares of Common Stock so issued will have been validly issued and will be fully paid and nonassessable. On the date hereof, the par value of the Common Stock is less than the Exercise Price per share of Common Stock.

13. CONTINUING VALIDITY. Nickelson and each holder of Warrant Shares shall continue to be entitled to all rights to which a Warrantholder is entitled pursuant to the provisions of this Warrant except such rights as by their terms apply solely to a Warrantholder, notwithstanding the fact that this Warrant has been exercised or the period of exercisability has expired. The Company will, at any time upon the request of Nickelson or a holder of the Warrant Shares, acknowledge in writing, in form reasonably satisfactory to Nickelson or such holder, the Company's continuing obligation to be entitled in accordance with the provisions of this Warrant; provided, however, that if Nickelson or such holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to Nickelson and such holder all such rights.

14. REDEMPTION.

(a) This Warrant may be redeemed, at the option of the Company, at any time after August 7, 2000 until the Expiration Date, for a redemption price equal to two times the then current Exercise Price, as adjusted as provided in this Warrant. This Warrant must be redeemed in whole and not in part if the Company exercises such right of redemption. All rights to exercise this Warrant shall terminate at 12:00 midnight California local time on the business day immediately preceding the date fixed for redemption.

(b) In the event the Company shall exercise its right to redeem this Warrant, it shall give notice to the Warrantholders by mailing a notice of redemption in accordance with the provisions stated herein, not less than 30 days prior to the redemption date.

(c) The notice of redemption shall specify the redemption price, the date fixed for redemption, the place where this Warrant shall be delivered and the redemption price shall be paid, and that the right to exercise this Warrant shall terminate at 12:00 midnight California local time on the business day immediately preceding the date fixed for redemption.

(d) Appropriate adjustment shall be made to the redemption price on the same basis as provided in Section 6 hereof with respect to adjustment of the Exercise Price.

(e) Effective on the date of the notice of redemption, the appreciation right set forth in Section 4(b), and all rights of Warrantholders under such Section 4(b), shall automatically terminate.

15. MISCELLANEOUS PROVISIONS.

(a) Notice of Expiration. The Company shall give written notice to the Warrantholders specifically advising them of the Expiration Date and of their right to exercise the Warrants not more than one hundred eighty (180) days and not less than ninety (90) days before the Expiration Date. If such written notice is not so given, the Expiration Date shall automatically be extended until ninety (90) days after the date that the Company gives the Warrantholders such written notice.

(b) Notices. All notices hereunder shall be in writing and shall be deemed to have been given five (5) days after being mailed by certified mail, addressed to the address below stated of the party to which notice is given, or to such changed address as such party may have fixed by notice:

To the Company: Allied Healthcare Products, Inc.
1720 Sublette Avenue
St. Louis, Missouri 63110
Attention: Mr. Barry Baker
Fax No.: (314) 771-0650

With copies to: Discckstein, Shapiro, Morin & Oskinsky, LLP
2101 L Street NW
Washington, D.C. 20037
Attention: Allen B. Goldstein, Esq.
Fax No.: (202) 887-0689

To the Warrantholders or holder of Warrant Shares: Donald E. Nickelson
Sam Hammacher
Harbour Group, Ltd.
7701 Fortsyth
Clayton, Missouri
Fax No.: (314) 725-7724

With a copy (which shall not constitute notice) to: Greensfelder, Hemker & Gale, P.C.
10 South Broadway; Suite 2000
St. Louis, Missouri 63102
Attention: Joseph D. Lehrer, Esq.
Fax No.: (314) 241-8624

provided, however, that any notice of change of address shall be effective only upon receipt.

(c) Successors and Assigns. This Warrant shall be binding upon and inure to the benefit of the Company, Foothill, the Warrantholders and the holders of Warrant shares and the

successors, assigns and transferees of the Company, Nickelson, the Warrantholders and the holders of Warrant Shares.

(d) Attorneys' Fees. The Company agrees to pay, on demand, all attorneys' fees (including attorneys' fees incurred pursuant to proceedings arising under the Bankruptcy Code) and all other costs and expenses which may be incurred by Nickelson, the Warrantholders and the holders of Warrant Shares in connection with any amendment to this Warrant and/or in connection with the enforcement of this Warrant or in any way arising out of, or consequential to the protection, assertion, or enforcement of the Obligations under the Loan Agreement (or any security therefor), whether or not suit is brought.

(e) Entire Agreement: Amendments and Waivers. This Warrant sets forth the entire understanding of the parties with respect to the transactions contemplated hereby. The failure of any party to seek redress for the violation or to insist upon the strict performance of any term of this Warrant shall not constitute a waiver of such term and such party shall be entitled to enforce such term without regard to such forbearance. This Warrant may be amended, the Company may take any action herein prohibited or omit to take action herein required to be performed by it, and any breach of or compliance with any covenant, agreement, warranty or representation may be waived, only if the Company has obtained the written consent or written waiver of the majority in interest of the Warrantholders, and then such consent or waiver shall be effective only in the specific instance and for the specific purpose for which given.

(f) Severability. If any term of this Warrant as applied to any person or to any circumstance is prohibited, void, invalid or unenforceable in any jurisdiction, such term shall, as to such jurisdiction, be ineffective to the extent of such prohibition or invalidity without in any way affecting any other term of this Warrant or affecting the validity or enforceability of this Warrant or of such provision in any other jurisdiction.

(g) Headings. The headings in this Warrant are inserted only for convenience of reference and shall not be used in the construction of any of its terms.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officers as of the date first set forth above.

ALLIED HEALTHCARE PRODUCTS, INC.,
a Delaware corporation

By: /s/ Barry F. Baker

Name: Barry F. Baker
Title: Vice President-Finance

THIS WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS AND MUST BE HELD INDEFINITELY UNLESS SUBSEQUENTLY REGISTERED UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR DISPOSED OF PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS.

WARRANT

Company: Allied Healthcare Products, Inc., a Delaware corporation
Number of Shares: 1,562
Class of Stock: Common Stock
Initial Exercise Price: \$7.025 per share
Issued as of: August 7, 1997
Expiration Date: August 7, 2002

FOR VALUE RECEIVED, the adequacy and receipt of which is hereby acknowledged, ALLIED HEALTHCARE PRODUCTS, INC., a Delaware corporation, hereby certifies that DENNIS W. SHEEHAN ("Sheehan"), an individual, and his successors and assigns, are entitled to purchase from the Company at any time and from time to time on and after August 7, 1998, until 12:00 midnight California local time on the Expiration Date at an initial exercise price of SEVEN AND 025/1000 DOLLARS (\$7.025) per share of Common Stock One Thousand Five Hundred Sixty-Two (1,562) fully paid and nonassessable shares of Common Stock of the Company on the terms and conditions hereinafter set forth.

The number of such shares of Common Stock and the Exercise Price are subject to adjustment as provided in this Warrant. Anything contained in this Warrant to the contrary notwithstanding, the number of shares of Common Stock which may be issued upon exercise of this Warrant by any Regulated Warrantholder shall never exceed such amount (the "Maximum Amount") as may be permitted under the Bank Holding Company Act, or any successor statute, or under any other federal or state banking laws or regulations to which such Regulated Warrantholder may be subject at the time of such exercise. If the number of shares of Common Stock which may be issued upon exercise of this Warrant exceeds the Maximum Amount, the number of shares of Common Stock into which this Warrant may be exercised will be reduced to the Maximum Amount and the Company will pay

to Foothill by check or in cash such amount that equals the Exercise Price multiplied by the number of shares of Common Stock by which the Warrant is reduced pursuant to this paragraph.

1. CERTAIN DEFINITIONS. As used in this Warrant, the following terms have the following definitions:

"Additional Shares of Common Stock" means all shares of Common Stock issued or issuable by the Company after the date of this Warrant.

"Common Stock" means the Company's Common Stock, par value \$.01 per share, and includes any common stock of the Company of any class or classes resulting from any reclassification or reclassifications thereof which is not limited to a fixed sum or percentage of par value in respect of the rights of the holders thereof to participate in dividends and in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Company.

"Company" means Allied Healthcare Products, Inc., a Delaware corporation.

"Convertible Securities" means evidence of indebtedness, shares of stock or other securities which are at any time directly or indirectly convertible into or exchangeable for Additional Shares of Common Stock.

"Current Market Price" of a share of Common Stock or of any other security as of a relevant date means: (i) the Fair Value thereof as determined in accordance with clause (ii) of the definition of Fair Value with respect to Common Stock or any other security that is not listed on a national securities exchange or traded on the over-the-counter market or quoted on NASDAQ, and (ii) the average of the daily closing prices for the ten (10) trading days before such date (excluding any trades which are not bona fide arm's length transactions) with respect to Common Stock or any other security that is listed on a national securities exchange or traded on the over-the-counter market or quoted on NASDAQ. The closing price for each day shall be (i) the last sale price of shares of Common Stock or such other security, regular way, on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices thereof on such date, in each case as officially reported on the principal national securities exchange on which the same are then listed or admitted to trading, or (ii) if no shares of Common Stock or if no securities of the same class as such other security are then listed or admitted to trading on any national securities exchange, the average of the reported closing bid and asked prices thereof on such date in the over-the-counter market as shown by the National Association of Securities Dealers automated quotation system or, if no shares of Common Stock or if no securities of the same class as such other security are then quoted in such system, as published by the National Quotation Bureau, Incorporated or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Warrantholders.

"Exchange Act" means the Securities Act of 1934.

"Exercise Period" means the period commencing on August 7, 1998 and ending at 12:00 midnight California local time on the Expiration Date.

"Exercise Price" means initially Seven and 025/1000 Dollars (\$7.025) per share, subject to adjustment as provided in this Warrant.

"Expiration Date" means August 7, 2002.

"Fair Value" means: (i) with respect to a share of Common Stock or any other security, the Current Market Price thereof, and (ii) with respect to any other property, assets, business or entity, an amount determined in accordance with the following procedure: the Company and the holders of the Warrants and Warrant Shares, as applicable, shall use their best efforts to mutually agree to a determination of Fair Value within ten (10) days of the date of the event requiring that such a determination be made. If the Company and such holders are unable to reach agreement within said ten (10) day period, the Company and such holders shall within ten (10) days of the expiration of the ten (10) day period referred to above each retain a separate independent investment banking firm (which firm shall not be the investment banking firm regularly retained by the Company). If either the Company or such holders fails to retain such an investment banking firm during such period, then the independent investment banking firm retained by such holders or the Company, as the case may be, acting along, shall take the actions outlined below. Such firms shall determine (within thirty (30) days of their being retained) the Fair Value of the security, property, assets, business or entity, as the case may be, in question and deliver their opinion in writing to the Company and to such holders. If such firms cannot jointly make the determination, then, unless otherwise directed by agreement of the Company and such holders, such firms, in their sole discretion, shall choose another investment banking firm independent of the Company and such holders, which firm shall make the determination and render an opinion as promptly as practicable. In either case, the determination so made shall be conclusive and binding on the Company and such holders. The fees and expenses of any such determination made by any and all such independent investment banking firms shall be paid by the Company. If there is more than one holder of Warrants, and/or Warrant Shares entitled to a determination of Fair Value in any particular instance, each action to be taken by the holders of such Warrants and/or Warrant Shares under this Section shall be taken by a majority in interest of such holders and the action taken by such majority (including as to any mutual agreement with the Company with respect to Fair Value and as to any selection of investment banking firms) shall be binding upon all such holders. In the case of a determination of the Fair Value per share of Common Stock, the Company and such holders shall not take into consideration, and shall instruct all such investment banking firms not to take into consideration, any premium for shares representing control of the Company, any discount for any minority interest therein or any restrictions on transfer under applicable federal and state securities laws or otherwise.

"Foothill" means Foothill Capital Corporation, a California corporation.

"Indemnified Party" and "Indemnifying Party" have the meanings set forth in Section 11(e)(iii).

"Loan Agreement" means that certain Loan and Security Agreement of even date herewith among the Company, its subsidiaries named therein and Foothill.

"Registrable Stock" means: (i) all Warrant Shares which are issuable to the Warranholders pursuant to the Warrants, whether or not the Warrants have in fact been exercised and whether or not such Warrant Shares have in fact been issued, (ii) all Warrant Shares acquired by the Warranholders pursuant to the Warrants, (iii) any shares of Common Stock, whether or not such shares of Common Stock have in fact been issued, and stock or other securities of the Company issued upon conversion of, in a stock split or reclassification of, or a stock dividend or other distribution on, or in substitution or exchange for, or otherwise in connection with, such Warrant Shares. For purposes of Section 11, a Warranholder of record shall be treated as the record holder of the related Warrant Shares and other securities issuable pursuant to the Warrants.

"Regulated Warranholder" means any Warranholder which is, or the part of which is, subject to the Bank Holding Company Act, or any successor statute, or any other federal or state banking laws and regulations.

"Securities Act" means the Securities Act of 1933, as amended.

"Warrant(s)" means this Warrant and any warrants issued in exchange or replacement of this Warrant or upon transfer hereof.

"Warranholder(s)" means Sheehan and his successors and assigns.

"Warrant Share" means shares of Common Stock issuable to Warranholders pursuant to the Warrants.

2. EXERCISE OF WARRANT. This Warrant may be exercised, in whole or in part, at any time and from time to time during the Exercise Period by written notice to the Company and upon payment to the Company of the Exercise Price (subject to adjustment as provided herein) for the shares of Common Stock in respect of which the Warrant is exercised.

3. FORM OF PAYMENT OF EXERCISE PRICE. Anything contained herein to the contrary notwithstanding, at the option of the Warranholders, the Exercise Price may be paid in any one or a combination of the following forms: (a) by wire transfer to the Company, (b) by the Warranholder's check to the Company, (c) by the cancellation of any indebtedness owed by the Company and/or any subsidiaries of the Company to the Warranholder, and/or (d) by the surrender to the Company of Warrants, Warrant Shares, Common Stock and/or other securities of the Company and/or any subsidiaries of the Company having a Fair Value equal to the Exercise Price.

4. CASHLESS EXERCISE/CONVERSION; APPRECIATION RIGHTS.

(a) Cashless Exercise/Conversion. In lieu of exercising this Warrant as specified in Sections 2 and 3 above, the Warranholders may from time to time at the Warranholders' option convert this Warrant, in whole or in part, into a number of shares of Common Stock of the Company determined by dividing (A) the aggregate Fair Value of such shares or other securities otherwise issuable upon exercise of this Warrant minus the aggregate Exercise Price of such shares by (B) the Fair Value of one such share.

(b) Appreciation Right. At any time on or after August 7, 2000, in lieu of exercising this Warrant as specified in Sections 2 and 3 above, the Warranholders may from time to time at the Warranholders' option require the Company to purchase this Warrant or any portion hereof, for cash, at a price equal to the then Fair Value of the Common Stock issuable upon exercise of this Warrant less the Exercise Price. Upon the Warranholders' exercise of this option, the Company shall promptly wire transfer to the Warranholders such amount in immediately available funds as is required under this Section 4(b), but in no event later than five (5) business days after the exercise of such option, in immediately available funds.

5. Certificates for Warrant Shares; New Warrant. The Company agrees that the Warrant Shares shall be deemed to have been issued to the Warranholders as the record owner of such Warrant Shares as of the close of business on the date on which payment for such Warrant Shares has been made (or deemed to be made by conversion) in accordance with the terms of this Warrant. Certificates for the Warrant Shares shall be delivered to the Warranholders within a reasonable time, not exceeding five (5) days, after this Warrant has been exercised or converted. A new Warrant representing the number of shares, if any, with respect to which this Warrant remains exercisable also shall be issued to the Warranholders within such time so long as this Warrant has been surrendered to the Company at the time of exercise.

6. ADJUSTMENT OF EXERCISE PRICE, NUMBER OF SHARES AND NATURE OF SECURITIES ISSUABLE UPON EXERCISE OF WARRANTS.

(a) Exercise Price; Adjustment of Number of Shares. The Exercise Price shall be subject to adjustment from time to time as hereinafter provided. Upon each adjustment of the Exercise Price, the Warranholders shall thereafter be entitled to purchase, at the Exercise Price resulting from such adjustment, a number of shares determined by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of shares purchasable pursuant hereto immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment.

(b) Adjustment of Exercise Price Upon Issuance of Common Stock. If and whenever after the date hereof the Company shall issue or sell Additional Shares of Common Stock without consideration or for a consideration per share less than the Current Market Price or the Exercise Price then in effect immediately prior to the issuance or sale of such shares, then the Exercise

Price in effect immediately prior to such issuance or sale of such shares shall be reduced to a number which shall be calculated by dividing (A) an amount equal to the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale multiplied by the then existing Exercise Price plus (2) the aggregate consideration, if any, received by the Company upon such issue or sale, by (B) the total number of shares of Common Stock outstanding immediately after such issue or sale.

No adjustment of the Exercise Price, however, shall be made in an amount less than \$.01 per share, but any such lesser adjustment shall be carried forward and shall be made at the time and together with the next subsequent adjustment which, together with any adjustments so carried forward, shall amount to \$.01 per share or more.

The provisions of this Section 6(b) shall not apply to (i) any Additional Shares of Common Stock which are distributed to holders of Common Stock pursuant to a stock split for which an adjustment is provided for under Section 6(f), or (ii) any additional shares of Common Stock which are issued upon exercise of options to purchase Common Stock outstanding as of the date of issuance of this Warrant.

(c) Further Provisions for Adjustment of Exercise Price Upon Issuance of Additional Shares of Common Stock and Convertible Securities. For purposes of Section 6(b), the following provisions shall also be applicable:

(i) in case at any time on or after the date hereof, the Company shall declare any dividend, or authorize any other distribution, upon any stock of the Company of any class, payable in Additional Shares of Common Stock or by the issuance of Convertible Securities, such declaration or distribution shall be deemed to have been issued or sold (as of the record date) without consideration and shall thereby cause an adjustment in the Exercise Price as required by Section 6(b).

(ii) (A) In case at any time on or after the date hereof, the Company shall in any manner issue or sell any Convertible Securities, whether or not the rights to exchange or convert thereunder are immediately exercisable, there shall be determined the price per share for which Additional Shares of Common Stock are issuable upon the conversion or exchange thereof, such determination to be made by dividing (a) the total amount received or receivable by the Company as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof by (b) the maximum aggregate number of Additional Shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities for such minimum aggregate amount of additional consideration; and such issue or sale shall be deemed to be an issue or sale for cash (as of the date of issue or sale of such Convertible Securities) of such maximum number of Additional Shares of Common Stock at the price per share so determined, and shall thereby cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b) hereof.

(B) If such Convertible Securities shall by their terms provide for an increase or increases, with the passage of time, in the amount of additional consideration, if any, payable to the Company, or in the rate of exchange upon the conversion or exchange thereof, the adjusted Exercise Price shall, upon any such increase becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made upon the issuance of such Convertible Securities been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock theretofore actually delivered upon the exercise of such Convertible Securities, (b) the issuance of all Common Stock, all Convertible Securities and all rights and options to purchase Common Stock issued after the issuance of such Convertible Securities, and (c) the original issuance at the time of such change of such Convertible Securities then still outstanding; provided, however, that any such increase or increases shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the Convertible Securities.

(C) If any rights of conversion or exchange evidenced by such Convertible Securities shall expire without having been exercised, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment with respect to such Convertible Securities been made on the basis that the only Additional shares of Common Stock issued or sold were those issued upon the conversion or exchange of such Convertible Securities, and that they were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of such Convertible Securities.

(iii) (A) In case at any time on or after the date hereof, the Company shall in any manner grant or issue any rights or options to subscribe for purchase or otherwise acquire Additional Shares of Common Stock, whether or not such rights or options are immediately exercisable, there shall be determined the price per share for such Additional Shares of Common Stock are issuable upon the exercise of such rights or options, such determination to be made by dividing (a) the total amount, if any, received or receivable by the Company as consideration for the granting of such rights or options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of such rights or options if the maximum number of Additional Shares were issued pursuant to such rights or options for such minimum aggregate amount of additional consideration, by (b) the maximum number of Additional Shares of Common Stock of the Company issuable upon the exercise of all such rights or options for such minimum aggregate amount of additional consideration; and the granting of such rights or options shall be deemed to be an issue or sale for cash (as of the date of the granting of such rights or options) of such maximum number of Additional Shares of Common Stock at the price per share so determined, and shall thereby cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b) hereof.

(B) If such rights or options shall by their terms provide for an increase or increases, with passage of time, in the amount of additional consideration payable to the Company upon the exercise thereof, the adjusted Exercise Price shall, upon any such increases

becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made upon the issuance of such rights or options been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock theretofore actually delivered upon the exercise of such rights or options, (b) the issuance of all Common Stock, all rights and options and all Convertible Securities issued after the issuance of such rights and options, and (c) the original issuance at the time of such change of any such rights or options then still outstanding; provided, however, that any such increase or increases in the Exercise Price shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the grant of such rights or options.

(C) If any such rights or options shall expire without having been exercised, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment with respect to such rights or options been made on the basis that the only Additional Shares of Common Stock so issued or sold were those issued or sold upon the exercise of such rights or options and that they were issued or sold for the consideration actually received by the Company upon such exercise, plus the consideration, if any, actually received by the Company for the granting of such rights or options.

(iv) (A) In case at any time on or after the date hereof, the Company shall grant any rights or options to subscribe for, purchase or otherwise acquire Convertible Securities, there shall be determined the price per share for which Additional Shares of Common Stock are issuable upon the exchange or conversion of such Convertible Securities if such rights or options were exercised, such determination to be made by dividing (a) the total amount, if any, received or receivable by the Company as consideration for the issuance of such rights or options, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exercise of such rights or options if the maximum number of Convertible Securities were issued pursuant to such rights or options for such minimum aggregate amount of additional consideration, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the exchange or conversion of such Convertible Securities if the maximum number of Additional Shares were issued pursuant to such Convertible Securities for such minimum aggregate amount of additional consideration, by (b) the maximum aggregate number of Additional Shares of Common Stock issuable upon the exchange or conversion of the Convertible Securities for such minimum aggregate amount of additional consideration; and the issue or sale of such rights or options shall be deemed to be an issue or sale for cash (as of the date of the granting of such rights or options) of such minimum number of Additional Shares of Common Stock at the price per share so determined, and thereby shall cause an adjustment in the Exercise Price, if such an adjustment is required by Section 6(b).

(B) If such rights or options to subscribe for or otherwise acquire Convertible Securities shall by their terms provide for an increase or increases, with the passage of time, in the amount of additional consideration payable to the Company upon the exercise, exchange or conversion thereof, the adjusted Exercise Price shall, forthwith upon any such increase becoming effective, be increased to such Exercise Price as would have been in effect had the adjustments made

upon the issuances of such rights or options been made upon the basis of (and the total consideration received therefor) (a) the issuance of the number of shares of Common Stock therefore actually delivered upon the exchange or conversion of such Convertible Securities, (b) the issuances of all Common Stock and all rights, options and Convertible Securities issued after the issuance of such rights and options and (c) the original issuances at the time of such change of any such rights, options and Convertible Securities issued upon exercise of such rights or options which are then still outstanding; provided, however, that any such increase or increases shall not exceed, in the aggregate, the amount of the original reduction of the Exercise Price attributable to the grant of such rights or options.

(C) If any such rights, options or rights of conversion or exchange of such convertible Securities shall expire without having been exercised, exchanged or converted, the adjusted Exercise Price shall forthwith be readjusted to such Exercise Price as would have been in effect had an adjustment been made with respect to such rights, options or rights of conversion or exchange of such Convertible Securities on the basis that the only Additional Shares of Common Stock so issued or sold were those issued or sold upon the exercise of such rights or options and exchange or conversion of such Convertible Securities and that they were issued or sold for the consideration actually received by the Company upon exercise of such rights and options and exchange or conversion of such Convertible Securities, plus the consideration if any, actually received by the Company for the granting of such rights, options or Convertible Securities.

(v) In any case where an adjustment has been made in the Exercise Price upon the issuance of Convertible Securities or any rights or options to purchase Convertible Securities or Additional Shares of Common Stock pursuant to this Section 6(c), no further adjustment shall be made at the time of the conversion of any such Convertible Securities or at the time of the exercise of any such rights or options.

(vi) In case at any time on or after the issuance of this Warrant any shares of Common Stock or Convertible Securities shall be issued or sold for a consideration other than cash, the amount of the consideration other than cash payable to the company shall be deemed to be the Fair Value of such consideration. Whether or not the consideration so received is cash, the amount thereof shall be determined after deducting therefrom any expenses incurred or any underwriting commissions or concessions or discounts paid or allowed by the Company in connection therewith.

(vii) In case at any time the company shall fix a record date of the holders of its Common Stock for the purpose of entitling them (a) to receive a dividend or other distribution payable in Common Stock, Convertible Securities or rights or options to purchase either thereof, or (b) to subscribe for or purchase Common Stock, Convertible Securities or rights or options to purchase either thereof, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed, pursuant to this Section 6(c), to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

(viii) The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Company, and the disposition of any such shares shall be considered an issue or sale of Common Stock for the purposes of this Section 6(c).

(d) Reorganization, Reclassification, Consolidation, Merger or Sale. If any capital reorganization or reclassification of the capital stock of the Company, or any consolidation or merger of the Company with another corporation, or the sale of all or substantially all of its assets to another corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive cash, stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization, reclassification, consolidation, merger or sale, lawful and adequate provisions shall be made whereby the Warrantheolders shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions specified in this Warrant upon exercise of this Warrant and in lieu of the shares of the Common Stock of the Company immediately therefore purchasable and receivable upon the exercise of the rights represented hereby, such cash, shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of Common Stock equal to the number of shares of such Common Stock immediately therefore purchasable and receivable upon the exercise of the rights represented hereby, and in any such case appropriate provision shall be made with respect to the rights and interest of the Warrantheolders to the end that the provisions hereof (including, without limitation, provisions for adjustments of the Exercise Price and of the number of shares purchasable and receivable upon the exercise of this Warrant) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any consolidation, merger or sale of all or substantially all of the assets of the Company unless prior to or simultaneous with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation, merger or purchase of such assets shall assume, by written instrument executed and mailed or delivered to the Warrantheolders, the obligation to deliver to such Warrantheolders such cash (or cash equivalent), shares of stock, securities or assets as, in accordance with the foregoing provisions, the Warrantheolders may be entitled to receive and containing the express assumption of such successor corporation of the due and punctual performance and observance of each provision of this Warrant to be performed and observed by the Company and of all liabilities and obligations of the Company hereunder; provided, however, in the case of any consolidation or merger of the Company with another corporation or the sale of all or substantially all of its assets to another corporation effected in such a manner that the holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, at the election of each Warrantheolder, in lieu of receiving such stock, securities or assets, such Warrantheolder shall receive cash equal to the Fair Value of the Common Stock issuable upon exercise of the Warrant, less the Exercise Price payable upon exercise thereof.

In case any Additional Shares of Common Stock or Convertible Securities or any rights or options to purchase any Additional Shares of Common Stock or Convertible Securities shall be issued in connection with any merger of another corporation into the Company, the amount of consideration therefor shall be deemed to be the Fair Value of such portion of the assets of such

merged corporation as the Board of Directors of the Company shall in good faith determine to be attributable to such Additional Shares of Common Stock, Convertible Securities or rights or options, as the case may be, and the Exercise Price shall be adjusted in accordance with this Section 6(d).

(e) Company to Prevent Dilution. In case at any time or from time to time conditions arise by reason of action taken by the Company which are not adequately covered by the provisions of this Section 6, and which might materially and adversely affect the exercise rights of the Warrantholders under any provision of this Warrant, unless the adjustment necessary shall be agreed upon by the Company and the Warrantholders, the Board of Directors of the Company shall appoint a firm of independent certified public accountants of recognized national standing (who have not been employed by the Company within the last five years), acceptable to the Warrantholders, what the Company's expense shall give their opinion upon the adjustment, if any, on a basis consistent with the standards established in the other provisions of this Section 6, necessary with respect to the Exercise Price and the number of shares purchasable upon exercise of the Warrants, so as to preserve, without dilution, the exercise rights of the Warrantholders. Upon receipt of such opinion, such Board of Directors shall forthwith make the adjustments described therein.

(f) Stock Splits and Reverse Splits. In case at any time the Company shall subdivide its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of shares of Common Stock purchasable pursuant to this Warrant immediately prior to such subdivision shall be proportionately increased, and conversely, in case at any time the Company shall combine its outstanding shares of Common Stock into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of shares of Common Stock purchasable upon the exercise of this Warrant immediately prior to such combination shall be proportionately reduced.

(g) Dissolution, Liquidation and Winding-Up. In case the Company shall, at any time prior to the expiration of this Warrant, dissolve, liquidate or wind up its affairs, the Warrantholders shall be entitled, upon the exercise of this Warrant, to receive, in lieu of the shares of Common Stock of the Company which such Warrantholders would have been entitled to receive, the same kind and amount of assets as would have been issued, distributed or paid to such Warrantholders upon any such dissolution, liquidation or winding up with respect to such shares of Common Stock of the Company, had such Warrantholders been the holders of record of the Warrant Shares receivable upon the exercise of this Warrant on the record date for the determination of those persons entitled to receive any such liquidating distribution. After any such dissolution, liquidation or winding up which shall result in any cash distribution in excess of the Exercise Price provided for by this Warrant, the Warrantholders may, at each such Warrantholder's option, exercise the same without making payment of the Exercise Price, and in such case the Company shall, upon the distribution to said Warrantholders, consider that said Exercise Price has been paid in full to it and in making settlement to said Warrantholders, shall deduct from the amount payable to such Warrantholders an amount equal to such Exercise Price.

(h) Noncash Consideration. In case any Additional Shares of Common Stock or Convertible Securities or any rights or options to purchase any Additional Shares of Common Stock or Convertible Securities shall be issued for a consideration in a form other than cash, the amount of such consideration shall be deemed to be the Fair Value thereof.

(i) Accountants' Certificate. In each case of an adjustment in the number of shares of Common Stock or other stock, securities or property receivable on the exercise of the Warrants, the Company at its expense shall cause independent public accountants of recognized standing selected by the Company and acceptable to the Warrantheolders to compute such adjustment in accordance with the terms of this Warrant and prepare a certificate setting forth such adjustment and showing in detail the facts upon which such adjustment is based, including a statement of (a) the consideration received or to be received by the Company for any Additional Shares of Common Stock, rights, options or Convertible Securities issued or sold or deemed to have been issued or sold, (b) the number of shares of Common Stock of each class outstanding or deemed to be outstanding, (c) the adjusted Exercise Price and (d) the number of shares issuable upon exercise of this Warrant. The Company will forthwith mail a copy of each such certificate to each Warrantheolder.

7. SPECIAL AGREEMENTS OF THE COMPANY.

(a) Reservation of Shares. The Company covenants and agrees that all Warrant Shares will, upon issuance, be validly issued, fully paid and nonassessable and free from all preemptive rights of any stockholder and from all taxes, liens and charges with respect to the issue thereof. The Company further covenants and agrees that during the period within which the rights represented by this Warrant may be exercised, the Company will at all times have authorized, and reserved, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant. The Company hereby covenants and agrees to take all such action as may be necessary to assure that the par value per share of the Common Stock is at all times equal to or less than the Exercise Price.

(b) Avoidance of Certain Actions. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, issue or sale of securities or otherwise, avoid or take any action which would have the effect of avoiding the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in carrying out all of the provisions of this Warrant and in taking all of such action as may be necessary or appropriate in order to protect the rights of the Warrantheolders against dilution or other impairment of their rights hereunder.

(c) Securing Governmental Approvals. If any shares of Common Stock required to be reserved for the purposes of exercise of this Warrant require registration with or approval of any governmental authority under any federal law (other than the Securities Act) or under any state law before such shares may be issued upon exercise of this Warrant, the Company will, at its expense, as expeditiously as possible, cause such shares to be duly registered or approved, as the case may be.

(d) Listing on Securities Exchanges; Registration. If, and so long as, any class of the Company's Common Stock shall be listed on any national securities exchange (as defined in the Exchange Act), the Company will, at its expense, obtain and maintain the approval for listing upon official notice of issuance of all Warrant Shares and maintain the listing of Warrant Shares after their issuance; and the Company will so list on such national securities exchange, will register under the Exchange Act (or any similar statute then in effect), and will maintain such listing of, any other securities that at any time are issuable upon exercise of this Warrant if and at the time any securities of the same class shall be listed on such national securities exchange by the Company.

(e) Information Rights. So long as the Warrantholders hold this Warrant and/or any of the Warrant Shares, the Company shall deliver to the Warrantholders (i) promptly after mailing, copies of all communications to the shareholders of the Company, (ii) within ninety (90) days after the end of each fiscal year of the Company, the annual audited financial statements of the Company certified by the independent public accountants of recognized standing, and (iii) within forty-five (45) days after the end of each of the first three quarters of each fiscal year, the Company's quarterly, unaudited financial statements.

(f) Restrictions on Public Sale by the Company. In the event of an underwritten offering by the Company made pursuant to a registration statement filed pursuant to Sections 11(a) or 11(b) the Company will not effect any public or private sale or distribution of its convertible debt or equity securities, including a sale under Regulation D of the Securities Act, for such period of time (not to exceed 90 days) as may be requested by the underwriters subject to customary exceptions; and the Company shall cause each holder of its privately placed convertible debt or equity securities issued by it at any time on or after the date of this Warrant to agree not to effect any public sale or distribution of any such securities during such period, including a sale pursuant to Rule 144 or Rule 144A under the Securities Act.

(g) Preemptive Rights. In the event the Company offers to the Company's shareholders the right to purchase any securities of the Company, then all shares of Common Stock issuable pursuant to the Warrants shall be deemed to be issued and outstanding and held by the Warrantholders and the Warrantholders shall be entitled to participate in such rights offering.

(h) Compliance with Law. The Company shall comply with all applicable laws, rules and regulations of the United States and of all states, municipalities and agencies and of any other jurisdiction applicable to the Company and shall do all things necessary to preserve, renew and keep in full force and effect and in good standing its corporate existence and authority necessary to continue its business.

8. FRACTIONAL SHARES. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. With respect to any fraction of a share called for upon exercise hereof, the Company shall pay to the Warrantholder an amount in cash equal to such fraction multiplied by the Current Market Value of one share of Common Stock.

9. NOTICES OF STOCK DIVIDENDS, SUBSCRIPTIONS, RECLASSIFICATIONS, CONSOLIDATIONS, MERGERS, ETC. If at any time: (i) the Company shall declare a cash dividend (or an increase in the then existing dividend rate), or declare a dividend on Common Stock payable otherwise than in cash out of its net earnings after taxes for the prior fiscal year; or (ii) the Company shall authorize the granting to the holders of Common Stock of rights to subscribe for or purchase any shares of capital stock of any class or of any other rights; or (iii) there shall be any capital reorganization, or reclassification, or redemption of the capital stock of the Company, or consolidation or merger of the Company with or sale of all or substantially all of its assets to, another corporation or firm; or (iv) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Company, then the Company shall give to the Warrantholders at the addresses of such Warrantholders as shown on the books of the Company, at least twenty (20) days prior to the applicable record date hereinafter specified, a written notice summarizing such action or event and stating the record date for any such dividend or rights (or, if a record date is not to be selected, the date as of which the holders of Common Stock of record entitled to such dividend or rights are to be determined), the date on which any such reorganization, reclassification, consolidation, merger, sale of assets, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected the holders of Common Stock of record shall be entitled to effect any exchange of their shares of Common Stock for cash (or cash equivalent), securities or other property deliverable upon any such reorganization, reclassification, consolidation, merger, sale of assets, dissolution, liquidation or winding up.

10. REGISTERED HOLDER; TRANSFER OF WARRANTS OR WARRANT SHARES.

(a) Maintenance of Registered books; Ownership of this Warrant. The Company shall keep at its principal office a register in which the Company shall provide for the registration, transfer and change of this Warrant. The Company shall not at any time, except upon the dissolution, liquidation or winding-up of the Company, close such register so as to result in preventing or delaying the exercise or transfer of this Warrant.

(b) Exchange and Replacement. This Warrant is exchangeable upon surrender hereof by the registered holder to the Company at its principal office for new Warrants of like tenor and date representing in the aggregate the right to purchase the number of shares purchasable hereunder, each of such new Warrants to represent the right to purchase such number of shares as shall be designated by said registered holder at the time of surrender. This Warrant and all rights hereunder are transferable in whole or in part upon the books of the Company by the registered holder hereof in person or by duly authorized attorney, and new Warrants shall be made and delivered by the Company, of the same tenor and date as this Warrant but registered in the name of the transferee(s) upon surrender of this Warrant, duly endorsed, to said office of the Company. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new Warrant of like tenor, in lieu of this Warrant, without requiring the posting of any bond or the giving of any other security. This Warrant shall be promptly canceled by the Company upon the surrender hereof in connection with any exchange, transfer or replacement.

The Company shall pay all expenses, taxes and other charges payable in connection with the preparation, execution and delivery of Warrants pursuant to this Section 10.

(c) Warrants and Warrant Shares Not Registered. The holder of this Warrant, by accepting this Warrant, represents and acknowledges that this Warrant and the Warrant Shares are not being registered under the Securities Act on the grounds that the issuance of this Warrant and the offering and sale of such Warrant Shares are exempt from registration under Section 4(2) of the Securities Act as not involving any public offering.

11. REGISTRATION.

(a) Required Registration. Whenever the Company shall receive a written request therefor from any holder or holders of at least 50% of the Registrable Stock, the Company shall promptly prepare and file a registration statement under the Securities Act covering the Registrable Stock which is the subject of such request and shall use its best efforts to cause such registration statement to become effective as expeditiously as possible; provided that the Company's obligations under this Section 11(a) shall be limited to one required registration only. Upon the receipt of such request, the Company shall promptly give written notice to all holders of Registrable Stock that such registration is to be effected. The Company shall include in such registration statement such Registrable Stock for which it has received written requests to register such shares by the holders thereof within thirty (30) days after the effectiveness of the Company's written notice to such other holders. Except as hereinafter expressly provided, without the written consent of the holders of a majority of the shares of Registrable Stock for which registration has been requested pursuant to this Section, neither the Company nor any other holder of securities of the Company may include securities in such registration.

(b) Incidental Registration. Each time the Company shall determine to file a registration statement under the Securities Act (other than on Form S-8 or Form S-4) in connection with the proposed offer and sale for money of any of its securities by it or by any of its securities holders, the company will give written notice of its determination to all holders of Registrable Stock. Upon written request of a holder of any Registrable Stock, the Company will cause all such Registrable Stock, the holders of which have so requested registration thereof, to be included in such registration statement, all to the extent requisite to permit the sale or other disposition by the prospective seller or sellers of the Registrable Stock to be so registered in accordance with the terms of the proposed offering. If the registration statement is to cover an underwritten distribution, the Company shall use its best efforts to cause the Registrable Stock requested for inclusion pursuant to this Section 11(b) to be included in the underwriting on the same terms and conditions as the securities otherwise being sold through the underwriters. If, in the good faith judgment of the managing underwriter of such public offering, the inclusion of all the Registrable Stock requested to be registered would materially and adversely affect the successful marketing of the other shares proposed to be offered, then the amount of the Registrable Stock to be included in the offering shall be reduced and the Registrable Stock and the other shares to be offered shall participate in such offering as follows: the shares to be sold by the company, the Registrable Stock to be included in

such offering and the other shares of Common Stock to be included in such offering shall each be reduced pr rata in proportion to the number of shares of Common Stock proposed to be included in such offering by each holder of such shares and by the Company.

(c) Registration Procedures. If and whenever the Company is required by the provisions of Section 11(a) or 11(b) to effect the registration of Registrable Stock under the Securities Act, the Company will, at its expense, expeditiously as possible:

(i) In accordance with the Securities Act and the rules and regulations of the Commission, prepare and file with the Commission a registration statement on the form of registration statement appropriate with respect to such securities and use its best efforts to cause such registration statement to become and remain effective until the securities covered by such registration statement have been sold, and prepare and file with the Commission such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective and such registration statement and prospectus accurate and complete until the securities covered by such registration statement have been sold;

(ii) If the offering is to be underwritten, in whole or in part, enter into a written underwriting agreement with the holders of the Registrable Stock participating in such offering and the underwriter in form and substance reasonably satisfactory to the managing underwriter of the public offering and the holders of the Registrable Stock participating in such offering;

(iii) Furnish to the holders of securities participating in such registration and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus and such other documents as such underwriters and holders may reasonably request in order to facilitate the public offering of such securities;

(iv) Use its best efforts to register or qualify the securities covered by such registration statement under such state securities or blue sky laws of such jurisdictions as such participating holders and underwriters may reasonably request.

(v) Notify the holders participating in such registration, promptly after it shall receive notice thereof, of the date and time when such registration statement and each post-effective amendment thereto has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(vi) Notify such holders promptly of any request by the Commission for the amending or supplementing of such registration statement or prospectus or for additional information;

(vii) Prepare and file with the Commission, promptly upon the request of any such holders, any amendments or supplements to such registration statement or prospectus

which, in the opinion of counsel for such holders, is required under the Securities Act or the rules and regulations thereunder in connection with the distribution or the Registrable Stock by such holders;

(viii) Prepare and promptly file with the Commission, and promptly notify such holders of the filing of, such amendments or supplements to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event has occurred as the result of which any such prospectus or any other prospectus is then in effect may include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading;

(ix) In case any of such holders or any underwriter for any such holders is required to deliver a prospectus at a time when the prospectus then in circulation is not in compliance with the Securities Act or the rules and regulations of the Commission, prepare promptly upon request such amendments or supplements to such registration statement and such prospectus as may be necessary in order for such prospectus to comply with the requirements of the Securities Act and such rules and regulations;

(x) Advise such holders, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Commission suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued;

(xi) If requested by the managing underwriter or underwriters or a holder of Registrable Stock being sold in connection with an underwritten offering, immediately incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriters and the holders of a majority of the Registrable Stock being sold agree should be included therein relating to the plan of distribution with respect to such Registrable Stock, including information with respect to the Registrable Stock being sold to such underwriters, the purchase price being paid for by such underwriters and with respect to any other terms of the underwritten (or best efforts underwritten) offering of the Registrable Stock to be sold in such offering; and make all required filings of such prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(xii) Cooperate with the selling holders of Registrable Stock and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Stock to be sold and not bearing any restrictive legends; and enable such Registrable Stock to be in such denominations and registered in such names as the managing underwriters may request at least two business days prior to any sale of Registrable Securities to the underwriters;

(xiii) Prepare a prospectus supplement or post-effective amendment to the registration statement or the related prospectus or any document incorporated therein by reference or file any other required documents so that, as thereafter delivered to the purchasers of the Registrable Stock, the prospectus will not contain an untrue statement of material fact or omit to state any material fact necessary to make the statements therein not misleading;

(xiv) Enter into such agreements (including an underwriting agreement) and take all such other actions in connection therewith in order to expedite or facilitate the disposition of such Registrable Securities and in such connection, whether or not an underwriting agreement is entered into and whether or not the registration is an underwritten registration:

(A) make such representations and warranties to the holders of such Registrable Stock and the underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters in primary underwritten offerings;

(B) If an underwriting agreement is entered into, the same shall set forth in full the indemnification provisions and procedures of Section 11(e) hereof with respect to all parties to be indemnified pursuant to said Section; and

(C) The Company shall deliver such documents and certificates as may be requested by the holders of the majority of the Registrable Stock being sold and the managing underwriters, if any, to evidence compliance with the terms of this Section 11(c) and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

The above shall be done at each closing under such underwriting or similar agreement or as and to the extent required thereunder;

(xv) Make available for inspection by a representative of the holders of a majority of the Registrable Stock, any underwriter participating in any disposition pursuant to a registration statement, and any attorney or accountant retained by the sellers or underwriter, all financial and other records, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such representative, underwriter, attorney or accountant in connection with the preparation of the registration statement; provided, that any records, information or documents that are designated by the Company in writing as confidential shall be kept confidential by such persons unless disclosure of such records, information or documents is required by court or administrative order;

(xvi) Otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make generally available to the Company's security holders, earning statements satisfying the provisions of Section 11(a) of the Securities Act, no later than forty-five (45) days after the end of any twelve (12) month period (or ninety (90) days, if such a period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Stock is sold to

underwriters in an underwritten offering, or, if not sold to underwriters in such an offering, (ii) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the registration statement;

(xvii) Not file any amendment or supplement to such registration statement or prospectus to which a majority in interest of such holders has objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or the rules and regulations thereunder, after having been furnished with a copy thereof at least five (5) business days prior to the filing thereof; provided, however, that the failure of such holders or their counsel to review or object to any amendment or supplement to such registration statement or prospectus shall not affect the rights of such holders or any controlling person or persons thereof or any underwriter or underwriters therefor under Section 11(e) hereof; and

(xviii) At the request of any such holder (i) furnish to such holder on the effective date of the registration statement or, if such registration includes an underwritten public offering, at the closing provided for in the underwriting agreement; an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, addressed to the underwriters, if any, and to the holder or holders making such request, covering such matters with respect to the registration statement, the prospectus and each amendment or supplement thereto, proceedings under state and federal securities laws, other matters relating to the Company, the securities being registered and the offer and sale of such securities as are customarily the subject of opinions of issuer's counsel provided to underwriters in underwritten public offerings, and such opinion of counsel shall additionally cover such legal and factual matters with respect to the registration as such requesting holder or holders may reasonably request, and (ii) use its best efforts to furnish to such holder letters dated each such effective date and such closing date, from the independent certified public accountants of the Company, addressed to the underwriters, if any, and to the holder or holders making such request, stating that they are independent certified public accountants within the meaning of the Securities Act and dealing with such matters as the underwriters may request, or, if the offering is not underwritten, that in the opinion of such accountants the financial statements and other financial data of the Company included in the registration statement or the prospectus or any amendment or supplement thereto comply in all material respects with the applicable accounting requirements of the Securities Act, and additionally covering such other financial matters, including information as to the period ending immediately prior to the date of such letter with respect to the registration statement and prospectus, as such requesting holder or holders may reasonably request.

(d) Expenses of Registration. All expenses incident to the Company's performance of or compliance with this Warrant, including, without limitation, the following shall be borne by the Company, regardless of whether the registration statement becomes effective:

(i) All registration and filing fees (including those with respect to filings required to be made with the National Association of Securities Dealers, Inc.);

(ii) Fees and expenses of compliance with all securities or blue sky laws (including fees and disbursements of counsel for the underwriters or selling holders in connection with blue sky qualifications of the Registrable Stock and in determination of their eligibility for investment under the laws of such jurisdictions as the managing underwriters or holders of a majority of the Registrable Stock being sold may designate);

(iii) Printing, messenger, telephone and delivery expenses;

(iv) Fees and disbursements of counsel for the Company and for the sellers of the Registrable Stock as hereinafter provided;

(v) Fees and disbursements of all independent certified public accountants of the Company (including the expenses of any special audit and "comfort" letters required by or incident to such performance); and

(vi) Fees and expenses of other persons retained by the Company.

The Company will, in any event, pay its internal expenses (including without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing of securities to be registered on each securities exchange on which similar securities issued by the Company are then listed, rating agency fees and the fees and expenses of any person, including special experts, retained by the Company.

In connection with the registration statement required hereunder, the Company will reimburse the holders of Registrable Stock being registered pursuant to the registration statement for the reasonable fees and disbursements of not more than one counsel (or more than one counsel if conflict exists among such selling holders in the exercise of the reasonable judgment of counsel for the selling holders and counsel for the Company) chosen by the holders of a majority of such Registrable Stock.

(e) Indemnification.

(i) The Company hereby agrees to indemnify each of the holders of Registrable Stock against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, preliminary or final prospectus, or other document incident to any such registration, qualification or compliance (or in any related registration statement, notification or the like) or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of any rule or regulation promulgated under the Securities Act applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and to reimburse the holders of Registrable Stock (including

officers and directors of the same and controlling persons) for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, provided, however, that the Company will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by the holders of the Registrable Stock in an instrument duly executed by Warranholders and stated to be specifically for use therein.

(ii) The holders of the Registrable Stock severally and not jointly agree to indemnify the Company and its officers and directors and each person, if any, who controls any thereof within the meaning of Section 15 of the Securities Act and their respective successors against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement of a material fact contained in any prospectus, offering circular or document incident to any registration, qualification or compliance relating to securities purchased pursuant to the Warrants (or in any related registration statement, notification or the like) or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading and will reimburse the Company and each other person indemnified pursuant to this subsection (ii) for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that this subsection (ii) shall apply only if (and only to the extent that) such statement or omission was made in reliance upon information (including, without limitation, written negative responses to inquiries) furnished to the Company by an instrument duly executed by Warranholders and stated to be specifically for use in such prospectus, or other document (or related registration statement, notification or the like) or any amendment or supplement thereto.

(iii) Each party entitled to indemnification hereunder (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party (as such Indemnifying Party's expense) to assume the defense of any claim or litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be satisfactory to the Indemnified Party, and the Indemnified Party may participate in such defense at such party's expense, and provided, further, that the omission by any Indemnified Party of its obligations under this Section 11(e) except to the extent that the omission results in a failure of actual notice to the Indemnifying Party and such Indemnifying Party is materially damaged solely as a result of the failure to give notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to the entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

(iv) If the indemnification provided for in this Section 11(e) is unavailable or insufficient to hold harmless an Indemnified Party in respect of any losses, claims, damages, liabilities, expenses or actions in respect thereof referred to herein, then the Indemnifying Party shall

contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages, liabilities, expenses or actions in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party on the one hand, and the Indemnified Party on the other, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities, expenses or actions as well as any other relevant equitable considerations, including the failure to give the notice required hereunder. The relative fault of the Indemnifying Party and the Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Warrantholders agree that it would not be just and equitable if contributions pursuant to this Section 11(e) were determined by pro rata allocation or by any other method of allocation which did not take account of the equitable considerations referred to above. The amount paid or payable to an Indemnified Party as a result of the losses, claims, damages, liabilities, or actions in respect thereof, referred to above, shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the contribution provisions of this Section 11(e), in no event shall the amount contributed by any seller of Registrable Stock exceed the aggregate net offering proceeds received by such seller from the sale of Registrable Stock to which such contribution or indemnification claim relates. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentations.

(v) The indemnification required by this Section 11(e) shall be made by periodic payments during the course of the investigation or defense, as and when bills are received or expenses incurred. Anything contained herein to the contrary notwithstanding, the maximum aggregate liability of any holder of Registrable Stock under this Section 11(e) shall not exceed the amount of the net proceeds actually received by such holder from the sale of its Registrable Stock pursuant to the registration, qualification, notification or compliance in respect of which such liability arose.

(f) Reporting Requirements Under Exchange Act. The Company shall maintain the registration of its Common Stock under Section 12 of the Exchange Act and shall keep effective such registration and shall timely file such information, documents and reports as the Commission may require or prescribe under Section 13 of the Exchange Act, or otherwise. The Company under the Securities Act, the Company shall (whether or not it shall then be required to do so) timely file such information, documents and reports as the Commission may require or prescribe under Section 13 or 15(d) (whichever is applicable) of the Exchange Act. The Company shall forthwith upon request furnish any holder of Registrable Stock (i) a written statement by the Company that it has complied with such reporting requirements; (ii) a copy of the most recent annual or quarterly report of the Company; and (iii) such other reports and documents filed by the Company that it has complied with the Commission as such holder may reasonably request in availing itself of an exemption for the sale of Registrable Stock without registration under the Securities Act. The Company acknowledges and agrees that the purpose of the requirements contained in this Section 11(f) is to enable any such

holder to comply with the current public information requirement contained in Rule 144 (or any other similar exemptive provision). In addition, the Company shall take such other measures and file such other information, documents and reports as shall hereafter be required by the Commission as a condition to the availability of Rule 144 and Rule 144A under the Securities Act (or any similar exemptive provision hereafter in effect).

(g) Stockholder Information. The Company may require each holder of Registrable Stock as to which any registration is to be effected pursuant to this Section 11 to furnish the Company such information with respect to such holder and the distribution of such Registrable Stock as shall be required by law or by the Commission in connection therewith.

12. REPRESENTATION AND WARRANTIES. The Company hereby represents and warrants to and covenants with Foothill, each Warrantholder, and each holder of Warrant Shares that:

(a) Organization and Capitalization of the Company. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. As of the date hereof, the authorized capital of the Company consists of 30,000,000 shares of Common Stock and 1,500,000 shares of Preferred Stock, of which 7,801,682 shares of Common Stock and no shares of Preferred Stock are issued and outstanding. The Company has, and at all times during the Exercise Period will have, reserved for issuance pursuant to the Warrants that number of shares of Common Stock that are issuable pursuant to the Warrants. No unissued shares of Common Stock are reserved for any purpose other than for issuance upon the exercise of the Warrants. As of the date hereof, the Company has not issued or agreed to issue any stock purchase rights, options, convertible securities, warrants (other than this Warrant) or any other securities or indebtedness convertible into shares of Common Stock, and there are no preemptive rights in effect with respect to the issuance of any shares of Common Stock. All the outstanding shares of Common Stock and Preferred Stock have been validly issued without violation of any preemptive or similar rights, are fully paid and nonassessable and have been issued in compliance with all federal and applicable state securities laws.

(b) Authority. The Company has full corporate power and authority to execute and deliver this Warrant, to issue the shares of Common Stock issuable upon exercise of this Warrant, and to perform all of its obligations hereunder, and the execution, delivery and performance hereof has been duly authorized by all necessary corporate action on its part. This Warrant has been duly executed on behalf of the Company and constitutes the legal, valid and binding obligation of the Company enforceable in accordance with its terms.

(c) No Legal Bar. Neither the execution, delivery or performance of this Warrant nor the issuance of the shares of Common Stock issuable upon exercise of this Warrant will (a) conflict with or result in a violation of the Certificate of Incorporation or By-Laws of the Company, (b) conflict with or result in a violation of any law, statute, regulation, order or decree applicable to the Company or any affiliate, (c) require any consent or authorization or filing with, or other act by or in respect of any governmental authority or (d) result in a breach of, constitute a default under or

constitute an event creating rights of acceleration, termination or cancellation under any mortgage, lease, contract, franchise, instrument or other agreement to which the Company is a party or by which it is bound.

(d) Validity of Shares. When issued upon the exercise of this Warrant as contemplated herein, the shares of Common Stock so issued will have been validly issued and will be fully paid and nonassessable. On the date hereof, the par value of the Common Stock is less than the Exercise Price per share of Common Stock.

13. CONTINUING VALIDITY. Sheehan and each holder of Warrant Shares shall continue to be entitled to all rights to which a Warrantholder is entitled pursuant to the provisions of this Warrant except such rights as by their terms apply solely to a Warrantholder, notwithstanding the fact that this Warrant has been exercised or the period of exercisability has expired. The Company will, at any time upon the request of Sheehan or a holder of the Warrant Shares, acknowledge in writing, in form reasonably satisfactory to Sheehan or such holder, the Company's continuing obligation to be entitled in accordance with the provisions of this Warrant; provided, however, that if Sheehan or such holder shall fail to make any such request, such failure shall not affect the continuing obligation of the Company to afford to Sheehan and such holder all such rights.

14. REDEMPTION.

(a) This Warrant may be redeemed, at the option of the Company, at any time after August 7, 2000 until the Expiration Date, for a redemption price equal to two times the then current Exercise Price, as adjusted as provided in this Warrant. This Warrant must be redeemed in whole and not in part if the Company exercises such right of redemption. All rights to exercise this Warrant shall terminate at 12:00 midnight California local time on the business day immediately preceding the date fixed for redemption.

(b) In the event the Company shall exercise its right to redeem this Warrant, it shall give notice to the Warrantholders by mailing a notice of redemption in accordance with the provisions stated herein, not less than 30 days prior to the redemption date.

(c) The notice of redemption shall specify the redemption price, the date fixed for redemption, the place where this Warrant shall be delivered and the redemption price shall be paid, and that the right to exercise this Warrant shall terminate at 12:00 midnight California local time on the business day immediately preceding the date fixed for redemption.

(d) Appropriate adjustment shall be made to the redemption price on the same basis as provided in Section 6 hereof with respect to adjustment of the Exercise Price.

(e) Effective on the date of the notice of redemption, the appreciation right set forth in Section 4(b), and all rights of Warrantholders under such Section 4(b), shall automatically terminate.

15. MISCELLANEOUS PROVISIONS.

(a) Notice of Expiration. The Company shall give written notice to the Warrantholders specifically advising them of the Expiration Date and of their right to exercise the Warrants not more than one hundred eighty (180) days and not less than ninety (90) days before the Expiration Date. If such written notice is not so given, the Expiration Date shall automatically be extended until ninety (90) days after the date that the Company gives the Warrantholders such written notice.

(b) Notices. All notices hereunder shall be in writing and shall be deemed to have been given five (5) days after being mailed by certified mail, addressed to the address below stated of the party to which notice is given, or to such changed address as such party may have fixed by notice:

To the Company: Allied Healthcare Products, Inc.
1720 Sublette Avenue
St. Louis, Missouri 63110
Attention: Mr. Barry Baker
Fax No.: (314) 771-0650

With copies to: Discckstein, Shapiro, Morin & Oskinsky, LLP
2101 L Street NW
Washington, D.C. 20037
Attention: Allen B. Goldstein, Esq.
Fax No.: (202) 887-0689

To the Warrantholders or holder of Warrant Shares: Dennis W. Sheehan
Sam Hammacher
Harbour Group, Ltd.
7701 Fortsyth
Clayton, Missouri
Fax No.: (314) 725-7724

With a copy (which shall not constitute notice) to: Greensfelder, Hemker & Gale, P.C.
10 South Broadway; Suite 2000
St. Louis, Missouri 63102
Attention: Joseph D. Lehrer, Esq.
Fax No.: (314) 241-8624

provided, however, that any notice of change of address shall be effective only upon receipt.

(c) Successors and Assigns. This Warrant shall be binding upon and inure to the benefit of the Company, Foothill, the Warrantholders and the holders of Warrant shares and the

successors, assigns and transferees of the Company, Sheehan, the Warrantholders and the holders of Warrant Shares.

(d) Attorneys' Fees. The Company agrees to pay, on demand, all attorneys' fees (including attorneys' fees incurred pursuant to proceedings arising under the Bankruptcy Code) and all other costs and expenses which may be incurred by Sheehan, the Warrantholders and the holders of Warrant Shares in connection with any amendment to this Warrant and/or in connection with the enforcement of this Warrant or in any way arising out of, or consequential to the protection, assertion, or enforcement of the Obligations under the Loan Agreement (or any security therefor), whether or not suit is brought.

(e) Entire Agreement: Amendments and Waivers. This Warrant sets forth the entire understanding of the parties with respect to the transactions contemplated hereby. The failure of any party to seek redress for the violation or to insist upon the strict performance of any term of this Warrant shall not constitute a waiver of such term and such party shall be entitled to enforce such term without regard to such forbearance. This Warrant may be amended, the Company may take any action herein prohibited or omit to take action herein required to be performed by it, and any breach of or compliance with any covenant, agreement, warranty or representation may be waived, only if the Company has obtained the written consent or written waiver of the majority in interest of the Warrantholders, and then such consent or waiver shall be effective only in the specific instance and for the specific purpose for which given.

(f) Severability. If any term of this Warrant as applied to any person or to any circumstance is prohibited, void, invalid or unenforceable in any jurisdiction, such term shall, as to such jurisdiction, be ineffective to the extent of such prohibition or invalidity without in any way affecting any other term of this Warrant or affecting the validity or enforceability of this Warrant or of such provision in any other jurisdiction.

(g) Headings. The headings in this Warrant are inserted only for convenience of reference and shall not be used in the construction of any of its terms.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE FOLLOWS]

AGREEMENT

between

ALLIED HEALTHCARE PRODUCTS, INC.
MEDICAL PRODUCTS DIVISION

and

DISTRICT NO. 9
INTERNATIONAL ASSOCIATION OF MACHINISTS
AND AEROSPACE WORKERS

JUNE 1, 1997 -- MAY 31, 2000

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AGREEMENT

THIS AGREEMENT entered into this 1st day of June, 1997, between ALLIED HEALTHCARE, INC. and its successors or assigns, hereinafter referred to as the "Company" and DISTRICT NO. 9 INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS, hereinafter referred to as the "Union".

ARTICLE I

RECOGNITION

SECTION 1. The Company recognizes the Union as the sole and exclusive bargaining agent for all production and maintenance employees employed in the Company's plant, but excluding office and clerical employees, watchmen, guards, professional employees and supervisors as defined in the National Labor Relations Act, as amended.

SECTION 2. UNION SECURITY. As a condition of employment, all employees subject to the provisions of this Agreement shall be members of the Union on or after the thirty-first (31st) day following the beginning of such employment or the execution date of this Agreement, whichever is later.

Employees who are on layoff for any reason and who fail to keep their membership in good standing as provided for by this Section shall be subject to discharge.

SECTION 3. EQUAL EMPLOYMENT OPPORTUNITY. The Company and the Union hereby agree that there shall be no discrimination based on an employee's race, sex, religion, national origin, union affiliation, age, Vietnam or disabled veterans' status, or handicap as provided by law. The Company will also comply with the American with Disabilities Act.

ARTICLE II

WORK LIMITATIONS OF EXCLUDED EMPLOYEES

Employees in positions excluded from this Agreement shall not do work on jobs for which rates of pay are established by the Company in the Agreement with the Union except for the purpose of instructing or in emergencies when other employees are not available.

ARTICLE III

HOURS OF WORK

SECTION 1. PURPOSE OF ARTICLE. This Article is intended to define the hours of work and to provide a basis for calculation of overtime, but shall not be construed as a guarantee or a limitation of hours of work per day or per week, or of days of work per week.

SECTION 2. DEFINITION OF A WORK DAY. A day shall be defined as the twenty-four (24) hour period commencing at the start of the employee's shift.

The basic work day shall consist of eight (8) consecutive hours in such twenty-four (24) hour period exclusive of a lunch period. (The only exceptions to the above will be those where an employee works straight through the shift being paid for a lunch period.)

SECTION 3. DEFINITION OF A WORK WEEK. The basic work week shall consist of five (5) basic eight (8) hour days, Monday through Friday, inclusive, except that the basic work week of certain employees may begin on other than Mondays and runs for five (5) consecutive basic eight (8) hour days.

SECTION 4. DEFINITION OF SHIFTS. Any shift starting on or after 6:00 a.m. but before 2:00 p.m. shall be considered a first shift. Any shift starting on or after 2:00 p.m. but before 10:00 p.m. shall be considered a second shift. Any shift starting on or after 10:00 p.m. but before 6:00 a.m. shall be considered a third shift.

The following times have been established for current shifts:

1st shift	6:00 a.m. to 2:30 p.m.
2nd shift	2:30 p.m. to 10:30 p.m.
3rd shift	10:30 p.m. to 6:30 a.m.

with the exception of Shipping and Receiving and related Packer Material Handlers whose hours will be:

1st shift	7:30 a.m. to 4:00 p.m.
2nd shift	4:00 p.m. to 12:00 midnight

The Company will allow Packer Material Handlers assigned to the warehouse to start their first shift at 6:00 AM as long as a second shift exists in the shipping department.

SECTION 5. DAY OF SHIFT. For the purpose of defining Saturday, Sunday and holiday pay, a shift shall be considered as having been worked on the calendar day on which the shift begins. Any shift beginning at 12:00 Midnight will be considered as the third shift of the preceding day, except on Saturday, in which case such shift shall be considered Sunday.

SECTION 5.1. A third shift may be added with a Sunday through Thursday work week. A Sunday night start would be considered the first day of the work week and not be subject to the Sunday overtime premium.

SECTION 5.2. The starting time for the second shift in Primary Machining may be modified to start at 4:30 PM. Primary Machining only refers to three job classifications: Mazak, Set-up Single Spindle, and Set Up Specialist. Second Shift in Primary Machining will receive an additional fifty (50) cents per hour whenever their shift starts at 4:30 PM.

SECTION 6. If it becomes necessary to change the number of shifts, the schedule of hours, or both, such changes shall be mutually agreed to by the Company and the Union Committee. Any person who is required to report to work earlier than his regular scheduled starting time shall be permitted to work his regular schedule of hours.

SECTION 7. Any person reporting for work at his regular scheduled starting time shall be guaranteed four (4) hours' work or four (4) hours pay.

The provisions of this Section shall not apply if, due to circumstances beyond the Company's control, such as fire, flood, destruction of property and/or working facilities due to failure of utilities caused by nature in which the Company is not provided with time to give employees proper advance notification.

ARTICLE IV

CHECK-OFF

SECTION 1. The Company agrees for and on account of the employees covered by this Agreement who are members of District No. 9, I.A.M.A.W. who furnish the Company with properly signed authorization cards, to deduct monthly dues out of the wages of such employees from the third pay check of each month, such deduction to be in payment of dues for the current month. Such authorization cards shall be furnished by the Union.

SECTION 2. If an employee does not have sufficient earnings in said dues deduction week to pay for his dues, then such dues shall be deducted from wages subsequently earned during that calendar month. If he does not have sufficient wages in said subsequent month, then the Company shall have no obligation to deduct dues for such month unless the Union notifies the Company as to specific amount due.

SECTION 3. Dues deductions shall start the following month for employees who furnish the Company with the above required authorization.

SECTION 4. The Company agrees to remit such dues, so collected, to the Financial Secretary of the Union. The Union shall advise the Company, in writing, as to the amount of the dues to be deducted, how the check for such dues shall be made payable and as to the name of the Financial Secretary and address to which such funds shall be sent.

ARTICLE V

OVERTIME

SECTION 1. The Company has the right to provide and require overtime work and employees will be expected to perform such work on request.

SECTION 2. Except in emergency situations, the Company agrees to notify employees of Saturday work requirements twenty-four (24) hours in advance of such Saturday work requirements.

SECTION 3. Overtime work shall be divided as impartially and equitable as is practical among the employees regularly assigned to do the work within the same shift and job classification.

In order to provide the above, the Company agrees to maintain a maximum regular work week overtime differential of twenty (20) hours.

The Company further agrees to maintain a maximum Saturday overtime differential of twenty (20) hours.

Errors in the equitable distribution of overtime shall be remedied by the assignment of an overlooked employee to the next overtime work that becomes available on work which he is regularly assigned to perform within his shift and job classification.

SECTION 4. An employee who is required to work overtime, but does not work shall be credited on the overtime distribution log as if he had worked the declined overtime.

SECTION 5. Corrected overtime distribution logs shall be posted every two weeks. All overtime logs shall revert to zero effective June 1st of each year.

SECTION 6. All employees returning from a leave of absence for any reason or a layoff, shall be credited with the highest number of overtime hours worked by employees regularly assigned to perform the work within the shift and job classification.

SECTION 7. Lead persons shall not be covered by the equalization principles outlined in Section 3 of this Article.

SECTION 8. All time worked in any one day over eight (8) hours shall be overtime and paid for at the rate of time and one-half for the first four (4) hours and double time thereafter. This does not apply to Saturday work if Saturday is an overtime day.

SECTION 9. Time and one-half shall be paid for the first eight (8) hours worked on a Saturday and double time thereafter.

SECTION 10. Double time shall be paid for all work performed on Sunday.

SECTION 11. If an employee, child, or dependent spouse has a previously scheduled doctor or dentist appointment outside the regular work day, when overtime is required, the employee will be excused and no points will be charged, provided proper documentation is furnished.

ARTICLE VI

HOLIDAYS

SECTION 1. Double time shall be paid for all time worked on the following holidays: New Year's Day, Martin Luther King Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, the Friday after Thanksgiving, Christmas Eve, Christmas Day, New Year Eve's. If a holiday falls on a Saturday, it shall be observed on the preceding working day. If a holiday falls on a Sunday, it shall be observed on the following working day.

SECTION 2. For all employees who are employed for thirty (30) days or more in the unit covered by District No. 9 International Association of Machinists and Aerospace Workers, eight (8) hours straight time shall be paid for the following holidays: New Year's Day, Martin Luther King Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, the Friday after Thanksgiving, Christmas Eve, Christmas Day, and New Year's Eve. In order to be eligible for such holiday pay, an employee must have actually worked both the last scheduled workday before and the first scheduled workday after such holiday unless ill or excused by the Company, or have scheduled a vacation day before or after the holiday. However, any employee reporting late for work the day before or the day after a holiday shall have that period of time deducted from his holiday pay instead of losing an entire day's pay.

SECTION 3. Any employee working on the above mentioned holidays shall be paid double overtime for all hours of work actually performed in addition to the eight (8) hours straight time holiday pay provided for in the foregoing paragraph.

SECTION 4. When a holiday falls within an employee's regular vacation, the employee shall receive an extra day off with pay.

SECTION 5. The Company has agreed to schedule a normal eight (8) hours work schedule the work day before the Memorial Day, Fourth of July, and Labor Day holidays. All overtime on those days will be voluntary.

SECTION 6. The Company agrees to use only volunteers on holidays. The Company agrees that no overtime will be required on the day preceding contractually observed holidays. If an employee works 8 regularly scheduled hours the day after a holiday, he/she will receive full holiday pay.

ARTICLE VII

SENIORITY

SECTION 1. Seniority shall be applied upon a plant wide basis on layoff and re-employment (the Company will not be expected to place any employee in a trainee classification in order to make the employee eligible to apply seniority on a plant-wide basis in layoff and re-employment).

SECTION 2. Each employee in the bargaining unit as of June 1, 1962 shall have a plant-wide seniority defined as the employee's length of continuous service since the employee's last date of hire, except those employees who were added to the bargaining unit on transfer from the Company's Blind Manufacturing Department whose seniority shall date as to the date of transfer.

Temporary layoffs due to lack of work, illness or injury of employee or other causes beyond the control of the employee shall not constitute interruption of continuous service as it is used here in this Article.

SECTION 2.5. Any employee may be assigned to any job within their classification.

SECTION 3. Employees may be permitted to bump and displace other employees on a plant-wide seniority basis only at such time as there is a contraction of the work force and then only to an equal or lower rated job classification.

SECTION 4. In all cases, plant-wide seniority shall be the basis of layoff, providing that the retained employee can satisfactorily perform the work required.

In no case shall an employee have any right in a reduction in force to a job at the higher level than the job in which they were surplus.

The sequence of layoffs shall be as follows:

(a) Probationary employees shall be the first to be laid off unless the skills and experience required for their jobs are such that senior employees are unable to qualify.

(b) Employees who are surplus in a particular job classification shall be laid off in the reverse order in which they were hired in accordance with their plant-wide seniority, provided, however, that the retained employee can satisfactorily perform the work required.

(c) During a contraction of the work force senior employees who are surplus in a particular job classification shall be permitted to displace (bump) employees with less plant seniority in other equal or lower rated job classifications; provided, however, that the retained employee can satisfactorily perform the work required.

(d) In lieu of bumping or transfer to an equal or lower rated classification, senior employees who are surplus in a particular classification may elect a layoff. Employees who elect a layoff in lieu of bumping or transfer to an equal or lower rated classification, shall have recall rights only to the classification held at the time of layoff. An exception shall be employees who bump or transfer to an equal or lower rated classification, and during a subsequent contraction of the work force elect a layoff rather than bumping or transferring again. Such employees shall have recall rights to the classification held at the time of layoff and to all higher or equal classifications up to and including their highest original classification or its equivalent.

(e) When an employee's plant-wide seniority does not permit the election of a layoff or of bumping to an equal or lower rated classification, the employee shall be laid off. These employees shall have recall rights to the highest classification held prior to the other equal or lower rated classifications in accordance with their plant-wide seniority.

In application of determining "satisfactory performance" aforementioned on all job classifications except highly skilled screw machine classification and journeyman classifications where long periods of extensive apprenticeship or training are involved, the Company agrees to allow a fair and reasonable trial subject to review for employees to apply themselves. Any exceptions to this rule must be determined by mutual agreement between the Union Committee and the Company. After a fair and reasonable trial, should the employee not be able to satisfactorily do the work required, the employee shall be disqualified and be allowed to bump any lower classification that his seniority will allow.

SECTION 5. Each newly hired employee shall be considered a probationary employee and shall not acquire seniority or employment rights until he has completed a probationary period. During such period, the Company may lay off or discharge an employee at its own discretion without future obligation to rehire him and without the employee having recourse to the grievance procedure.

The probationary period shall be thirty (30) calendar days. On completion of the probationary period an employee will be credited with an equivalent amount of plant seniority.

SECTION 5.5. When it is necessary to transfer an employee temporarily from one classification to another, the following sequence shall be followed:

1. The Senior displaced employee in the plant whose permanent classification is to be temporarily filled.
2. Those employees in the plant who are available as a result of a breakdown or lack of work.

3. Any other employee in the plant except, that no employee will be required to temporarily transfer for more than 15 working days in a calendar quarter.

Any employee who is temporarily transferred shall be paid in accordance with Article XX, Sections 1 and 2 of this Agreement.

SECTION 6. In all cases of promotion or transfer, the following factors shall be considered:

- (a) Seniority.
- (b) Knowledge of and/or ability to do the job.
- (c) Physical fitness.

Where factors (b) and (c) are approximately equal between employees to be considered, seniority shall govern.

All new job classifications and/or permanent vacancies, as determined by management shall be posted for bid (including trainee classifications). Job bidding shall apply only to promotions. A promotion shall be defined as a higher rated job classification (final rates of classification including trainee classification). No employee in the trainee classification shall be permitted to bid until completion of his trainee period on his present classification. Employees will be eligible to bid lateral or down on all new classifications and job openings within the plant. An employee awarded such a bid will not be eligible to bid lateral or down or to request a lateral or downward transfer for a period of one (1) year. The vacancy resulting from this procedure will be filled under the job bidding procedure for promotions.

Jobs shall be posted for a period of twenty-four (24) hours. The posting shall include the stated job classification, the rate of pay and the shift to be worked. A sealed box shall be provided for this purpose. The bids will be opened by an accredited representative of both parties to this Labor Agreement.

Vacancies shall be filled by promotion or transfer when possible to do so, providing the employees considered can satisfactorily do the work required. The Company will advise the Union Committee, after making the change by promotion or transfer, to the Union Committee. If any employee feels he has been improperly bypassed, he may file a grievance in accordance with the Grievance Procedure in this Agreement. Employees promoted or transferred with the bargaining unit and who failed to qualify within thirty (30) days may return to their former classification, or if such classification is not available, then to the most nearly equivalent classification.

SECTION 7. Laid-off employees shall be called back in reverse order in which they were laid off in accordance with the seniority provisions of this Agreement. The Company shall notify them in writing by Certified Mail, Return Receipt Requested, forwarded to their last known address on the Company's records, and if any such employee shall fail to report to work within twenty-four (24) hours, the Company may call the next employee in order of seniority to fill the said position. Failure to report to work within twenty-four (24) hours after having received the aforesaid notice will result in loss of seniority, and the Company will be relieved of any obligation to reinstate the employee. It is the sole responsibility of the employee to keep the Company informed as to his address and/or telephone number. The Company will give full consideration to any extenuating circumstances.

(a) An employee must accept recall to the highest original classification held prior to a contraction of the work force or the employee shall forfeit all seniority rights.

(b) An employee recalled to an equal or lower rated classification (not the highest original classification held prior to a contraction of the work force) shall have an election of accepting the recall or of continuing on layoff. If the employee elects to continue on layoff, his recall rights shall be limited only to the highest original classification held prior to a contraction of the work force. If the employee accepts recall to another equal or lower rated classification, he shall be subject to the same performance requirements and conditions stated in Section 4 of this Article.

(c) An employee on layoff shall have no rights to a job classification higher than the highest original classification held prior to a contraction of the work force. However, if such an opening should occur, the Company may at its own discretion offer such a higher classification opening to such an employee on layoff without regard to seniority after application of the bidding procedure of the Agreement to those employees actively employed. Should said employee refuse the higher rated classification, it shall have no effect on their status and rights under this Agreement. Should said employee accept the higher rated classification, the employee shall be governed by Section 6 of this Article provided that the Employee's seniority entitles the employee to such other or former classification. Should the employee's seniority not entitle the employee to such other or former classifications the employee's status shall revert to layoff with full rights provided by this Agreement.

SECTION 8. Employees who desire to be considered for a lateral or downward transfer, shall register their desire with the personnel department in writing, dating and signing their individual request.

SECTION 8.5. Employees wishing to transfer shifts within the same department and class may do so if a job opening exists. Once preference is granted, they will not be permitted to exercise this right for a period of six (6) months. Employees shall register their desire with the personnel department in writing, dating and signing their individual request.

SECTION 9. In the Screw Machine Department, job classification promotion vacancies shall be filled by automatic consideration to lower pay-rated screw machine job classification employees.

Upgrading to Set-Up Man from Operator shall be in progressive steps within the Company Training Program as established. Employees entering the Training Program and completing a six month evaluation period successfully, shall be upgraded to the classification of Set-Up Trainee. Employees upgraded to Set-Up Trainee shall receive one-half (1/2) the difference between their current existing Operator rate and that of Set-Up Man.

The final twelve (12) months of the program shall be incremental steps increasing every three (3) months or sooner as the employee qualifies for such increases.

SECTION 10. An employee shall lose seniority rights for any one of the following reasons:

- (a) If an employee is not in the active employment of the Company for eighteen (18) consecutive months.
- (b) If he quits on his own accord.
- (c) If he is dismissed for just cause which is not contested by the Union within five (5) working days, subject to the Grievance Procedure.
- (d) If he is absent for three (3) successive working days or more without just cause and without notifying the Company. (All employees, however, will cooperate to the fullest extent to notify the Company the first day by telephone).
- (e) Working for another employer during a leave of absence in which case the employee will be considered to have voluntarily quit.
- (f) If he fails to return to work within twenty-four (24) hours as outlined in Section 7 above.

(g) No employee's seniority shall be terminated on account of extended illness, provided that such employee reports at the expiration of each thirty (30) days to the Company by mail, the status of his illness and supplies medical evidence as requested. During this leave of absence the employee shall continue to accrue seniority for a period of twelve (12) months. At the end of the twelve (12) month period, these employees shall retain the seniority held as of that date and shall not accrue additional seniority until they return to work. The Company's obligation to provide benefits or payment or costs for benefits shall cease at the end of twelve (12) months and resume when the employee returns to work. Such employee, upon return to work, will be assigned to his former position, if available (or the next comparable position if not available) if physically able to perform the duties thereof. In the event of the inability to properly perform such duties, the Company will endeavor to assign other suitable employment.

SECTION 11. Those employees promoted to a salaried Foreman's position prior to June 1, 1973, shall continue to accrue seniority until December 31, 1973. At the end of this period, these employees shall retain the seniority held as of that date and shall not accrue additional seniority.

Subsequent to June 1, 1973, employees promoted to non-bargaining unit positions shall continue to accrue seniority for a period of thirty (30) days. At the end of this period, these employees shall retain the seniority held as of that date and shall not accrue additional seniority.

SECTION 12. It is agreed that the Company and the Union will cooperate in drawing up seniority lists which shall be posted on the bulletin board. Any objections to said lists shall be made within ten (10) working days after it is posted, otherwise it will be considered a true list. Employees absent during the time of posting because of illness or layoff shall have ten (10) working days after recall or after they return to object to said list. An up-to-date seniority list will be posted each three (3) months.

SECTION 13. The steward within the department shall, on the date of layoff of any employees, be given a list of the employees to be laid off.

SECTION 14. Unless prevented from doing so by circumstances beyond the control of the Company, the Company agrees to notify the employees of layoffs at least two (2) working days in advance of such layoffs.

ARTICLE VIII

TEMPORARY AND EMERGENCY SHUTDOWNS

SECTION 1. Shutdowns through five (5) consecutive working days per year per department shall not be considered as a layoff for purposes of the Agreement, and any temporary release from work in such cases shall involve only the employee or employees whose jobs are affected. After five (5) consecutive working days, the Company shall revert to the lay-off provision contained in Article VII, Section 4. An emergency shutdown of one (1) day or less shall not be counted toward the five (5) working day provision above. An emergency shutdown are those due to circumstances beyond the Company's control as defined in Article III, Section 7.

SECTION 2. Partial or complete shutdowns for the balance of a shift shall be governed by the provisions of Article III, Section 7.

ARTICLE IX

REST PERIODS

The Company agrees to provide an adequate rest period of a full ten (10) minutes in each half of the shift for all employees.

ARTICLE X

VACATIONS

SECTION 1. All employees covered by this agreement who have completed one (1) year's employment with the Company shall receive one (1) week's vacation with forty (40) hours' pay.

SECTION 2. All employees covered by this Agreement who have completed three (3) years of employment with the Company shall receive two (2) weeks' vacation with eighty (80) hours' pay.

SECTION 3. All employees covered by this Agreement who have completed nine (9) years of employment with the Company shall receive three (3) weeks' vacation with one hundred twenty (120) hours' pay.

SECTION 3.5. All employees covered by this Agreement who have completed fifteen (15) years of employment with the Company shall receive four (4) weeks' vacation with one hundred sixty (160) hours' pay.

SECTION 4. The anniversary date of employment established the amount of vacation earned in accord with Sections 1 through 3.5, which vacation shall be scheduled and taken in the subsequent 12 months ending with the next anniversary date of employment.

SECTION 5. The rate to be used in calculating vacation pay is hourly rate of employee at the time the vacation is taken.

SECTION 6. Effective January 1, 1986, it is mutually agreed that the Company may close its plant for one week vacation in conjunction with the Independence Day holiday. The Independence Day holiday will be celebrated on Monday following the shutdown period. Employees with vacation entitlement will take vacation during this period.

The Company will provide ninety (90) days' notice if the vacation shutdown period is to be scheduled in any given year.

The Company reserves the right to request certain employees to work during this period to perform whatever necessary functions as may be required to maintain reasonable continuity in maintenance and service to its customers.

Those employees entitled to greater than one (1) week vacation shall schedule up to two (2) additional weeks of vacation by March 1st. Vacation may be scheduled in single day increments in accordance with the Company memorandum regarding one day at a time vacations, dated 2/16/1996.

Employees will be allowed to use their vacation in single days or partial weeks. All employees will be allowed to request in advance both single days or partial weeks vacation. In advance means a minimum of 24 hours prior to the day requested. For an employee to be allowed to request a single day of vacation on that date, the employee must have attendance points of five (5) or above. This request must be made prior to but no later than one (1) hour after the start of the employee's shift. Employees unable to contact their supervisors directly should leave a message on the supervisors phonemail indicating their request for a vacation day. The phonemail system time dates all messages. Those messages received prior to the end of the first hour (after the employee's start time) and who meet the eligibility requirements (5 points or greater than) will be honored. Employees who do not conform to this policy will not be allowed to use a vacation day and will be charged with an absence.

In all cases, insofar as possible, vacation will be granted at the time most desired by the employee. However, where there is scheduling conflict seniority shall dictate the order in the scheduling of the vacation.

The final right to designate vacation periods is exclusively reserved to the Company in order to assure the efficient operation of the plant.

SECTION 7. Vacation pay shall be at the rate in effect at the time vacation is taken. Employees who have been in the employ of the Company more than six (6) months terminating their employment with the Company for any reason whatsoever shall receive one-twelfth (1/12) of their regular vacation allotment due them at the time of such termination for each month worked after their last anniversary date.

SECTION 8. An employee who enlists or who is inducted into the United States Armed Forces shall be considered as being on a leave of absence, in accordance with regulations and procedures of applicable Federal statutes. His vacation pay shall be computed accordingly. Upon his return to work, he shall have such time spent in the Armed Forces counted for determining whether he is eligible for one, two, three or four weeks vacation.

SECTION 9. Employees laid off and recalled shall in the following vacation period receive a pro-rated vacation based on Section 7, less any vacation pay given them when laid off.

If an employee's layoff was less than three (3) consecutive months, he shall receive vacation pay the same as if he had not been laid off. However, if said employee was laid off longer than three consecutive months, such months beyond three (3) shall not be counted for the purpose of computing vacation pay.

An employee on leave of absence less than three (3) consecutive months shall receive vacation pay at the same as if he had not been on a leave of absence. However, if said employee was on a leave of absence for longer than three (3) consecutive months, such months beyond three (3) shall not be counted for the purpose of computing vacation pay.

SECTION 10. It shall be a violation of this Agreement for an employee to accept vacation pay in lieu of vacation. It shall also be a violation of this Agreement for an employer to offer an employee vacation pay in lieu of vacation.

SECTION 11. Split vacations to be paid off at the time vacation is taken.

ARTICLE XI

GRIEVANCE PROCEDURE

SECTION 0.5. A grievance is defined as a complaint or dispute concerning alleged violations of, non compliance with, or the interpretation or application of specific provisions of this Agreement. This does not limit the right of the Union to file a grievance in the behalf of the employee who has been disciplined.

SECTION 1. The Company agrees to recognize stewards elected by the Union from among the Company's employees to the extent of one (1) steward per department per shift. The stewards will be allowed such reasonable time off from their regular duties without loss of pay as is necessary in the handling of grievances and union business.

The Company shall also recognize a plant grievance committee which shall consist of at least three (3) employees for the purpose of collective bargaining and the handling of grievances after grievances have been handled in the first step of the Grievance Procedure by a departmental steward on a particular shift involved.

SECTION 2. When grievances arise, the following procedure shall be followed; each enumerated step to be exhausted before resorting to the next.

(a) An employee who has a grievance shall report it to his foreman in writing not later than the fifth (5th) working day following the incident which caused the grievance. It will be discussed promptly by the foreman, the employee and his union steward. If no settlement is reached within five (5) working days, the foreman shall answer the grievance, signed and in writing.

(b) The grievance may then be presented by the shop committee to the Plant Superintendent within five (5) working days after receipt of the answer. If no settlement is reached within five (5) working days, the grievance shall be answered, signed and in writing.

(c) If the matter remains unsettled after steps (a) and (b), the grievance may be presented by the Business Representative of the Union for discussion with the Vice President of Operations and Vice President of Human Resources in a meeting with the shop committee within ten (10) working days. A decision shall be given by the Company within five (5) working days after such meeting. The decision will be signed and in writing.

(d) The time limits prescribed above may be extended by mutual agreement, but neither party will refuse to grant to the other, upon timely request based upon reasonable cause, an extension of the prescribed time. It is agreed that any grievance that is not referred to the next higher step within the periods prescribed (including an extension), shall be considered settled and need not receive further consideration.

SECTION 3. ARBITRATION

(a) In the event the parties fail to settle the grievance in the three (3) previous steps, the dissatisfied party may notify the other in writing within ten (10) working days after the decision in the third (3rd) step of a desire to appeal the decision to arbitration.

(b) At a time mutually agreeable, but not to exceed thirty (30) calendar days from the date of the notice of appeal, the parties will meet to agree on a written stipulation as to the specific issue in the dispute. At this time, these parties will also draw up a joint letter to the Federal Mediation and Conciliation Service requesting it to submit the names of five (5) prospective arbitrators. The parties shall select one (1) prospective arbitrator by alternately striking a name from the list until one (1) name remains. The party appealing the matter to arbitration shall strike the first name. A copy of the agreed upon stipulation, signed by both parties, will be submitted to the arbitrator.

(c) The decision of the arbitrator shall not have the authority to alter in any way the terms and conditions of this Agreement. The arbitrators' fees and expense and any clerical or stenographic expense incidental to arbitration and mutually agreed to shall be borne equally by the Company and the Union.

SECTION 4. Employees shall not cease work, slow down, picket or engage in and strike or other concerted interruption or interference with the business of the Company during the term of this Contract. Any other violation of this provision by an employee shall make such employee subject to immediate discharge.

ARTICLE XII

DISCHARGE CASES

Management agrees that employees shall not be suspended or discharged without just cause. The Union will be notified of any employees who are suspended or discharged. Any grievance protesting a discharge shall be filed within five (5) working days and will be introduced in the third (3rd) step of the grievance procedure. Should it be determined in any step of the Grievance Procedure that the employee has been suspended or discharged unjustly, he shall be reinstated to his former position in accordance with the seniority provision of the Agreement, and he shall be paid back pay for all time lost.

ARTICLE XIII

JURY DUTY

The Company agrees to pay all employees who serve on jury duty the difference between their regular straight time eight (8) hour day and the amount given them for jury service for each day they serve.

ARTICLE XIV

FUNERAL LEAVE

All employees, when death occurs in their immediate family, shall be allowed three (3) days off with pay in order to attend the funeral. The immediate family shall be defined as including mother, father, sister, brother, spouse, children, step-children, grandparents, grandchildren, mother-in-law, and father-in-law.

The benefits contained in this paragraph are contingent upon the employee's attendance at the funeral. The Company reserves the right to request proof of such attendance.

ARTICLE XV

HEALTH PROVISIONS

SECTION 1. The Company shall provide adequate clean lockers and a locker room. The Company shall also provide adequate washing facilities within the confines of the male and female washrooms respectively. The Company shall continue to provide cold drinking water. The Company will maintain the current practice as it relates to extra breaks during the hot summer months. Gatorade will be provided.

Note: We suggest involving the safety committee in developing the procedure to be used.

SECTION 2. Protective Devices The Company shall continue to make provisions for the safety and health of its employees during the hours of their employment. Protective devices and other equipment necessary will be provided by the Company in accordance with general Union conditions and in accordance with all Federal, State and Municipal safety and sanitary regulations.

SECTION 3. The Company and the Union agree to provide a program for safety and health of the employees during the hours of their employment. A safety committee shall be established. The safety committee and the bargaining committee shall be one and the same. Any complaint or grievance concerning the safety and health of the employees in the hours of the employment shall be honored as a grievance and the following procedure shall be followed:

(a) An employee who has a grievance concerning safety and health during the hours of employment shall report it to his foreman in writing not later than the fifth (5th) working day following the incident which caused the grievance. It will be discussed promptly by the foreman, the employee and the union steward. If no settlement is reached within one (1) working day from the date the grievance is received, the foreman shall answer the grievance, signed and in writing.

(b) The grievance may then be presented by the shop committee to the plant Superintendent and/or the Safety Manager within five (5) working days after the receipt of the answer. If no settlement is reached within the following five (5) working days, the grievance shall be answered, signed and in writing.

(c) If the matter remains unsettled after steps (a) and (b), the grievance may be entered at the third step of the normal grievance procedure as outlined in Article XI, Section 2(c).

SECTION 4. An employee shall not be deemed as having voluntarily quit or shall not be discharged or disciplined nor shall it be considered as a breach of this Agreement if such employee leaves the plant when the temperature drops below 65 degrees Fahrenheit inside the plant.

SECTION 5. Any employee reporting off for sickness or accident may at the discretion of the Company, be required to appear for an examination at a physician of the Company's choosing.

Should it be determined by the Company physician that the employee is able to work, no sickness or accident benefits will be paid.

ARTICLE XVI

WAGES

SECTION 1. Attached hereto as Appendix A and made part of this Agreement are the Wage Schedules and effective dates for all current classifications effective June 1, 1997. On June 1, 1998, each classification will be increased by \$.35, and on June 1, 1999, each classification will be increased by an additional \$.35.

SECTION 2. A shift premium of fifty cents (\$.50) per hour will be paid in addition to the classification rate for all classifications equal or above Machine Operator/Set-Up for all work performed on the second and third shifts.

A shift premium of forty cents (\$.40) per hour will be paid in addition to the classification rate for all classifications below Machine Operator/Set-Up for all work performed on the second and third shifts.

ARTICLE XVII

LEAD PERSONS

SECTION 1. Lead persons work under the direction of a designated supervisor. They assist the supervisor by instructing employees in their duties and in the proper way of doing the job, in the assignment of work, in the coordination of the flow of work through those job functions assigned to them. They report mechanical problems to the supervisor, they requisition tools and supplies; and they assist in the promotion of plant safety, area housekeeping, or other non-supervisory duties which may be assigned by the supervisor from time to time. The lead persons may perform the work of those employees working under them.

It is understood that the Lead persons have no authority to hire, transfer, suspend, layoff, recall, promote, discharge, reward, discipline or reprimand other employees or to process their grievances, nor do they have authority to effectively recommend any such action.

SECTION 2. The Company and the Union agree that Lead persons shall receive one dollar (\$1.00) per hour or ten percent (10%), whichever is higher, above the highest regular job classification hourly rate regularly assigned to the department and shift in which they lead.

ARTICLE XVIII

BULLETIN BOARDS

The Union shall have the right to post notices on the Company's premises on a locked, glass enclosed Union bulletin board furnished by the Company for that purpose.

ARTICLE XIX

VISITS TO PERSONNEL

Employees will be allowed to go to Personnel during breaks and lunch without an appointment provided that their supervisor is made aware if they are not able to report back to the job on time.

ARTICLE XX

JOB TRANSFERS WITHIN THE UNIT

SECTION 1. All employees temporarily transferred to jobs with higher rates of pay shall receive the higher rate immediately.

SECTION 2. Employees temporarily transferred to jobs of equal or lower rates of pay shall continue to receive the higher rate of pay.

SECTION 3. Employees who bump or are transferred to jobs of equal or lower rates of pay during a contraction of the work force shall have their classification changed and receive the equal or lower rate of pay.

Should an opening occur in highest original classification held prior to a contraction in the work force within a period of eighteen (18) months from the date of bump or transfer, the employee shall have an opportunity to return to this classification in accordance with the employee's plant-wide seniority. Should an employee elect not to return to the highest original classification, this shall serve as a waiver of future rights under this Section.

Should an opening occur within a period of eighteen (18) months from the date of bump or transferring a classification equal to or lower than the highest original classification held prior to a contraction of the work force, but higher than the classification currently held by the employee, the employee shall have an opportunity to accept such an opening in accordance with the

employee's plant-wide seniority. Should an employee accept such an opening, the employee shall be subject to the performance requirements and conditions of Article VII, Section 4. Should the employee not accept such an opening, the employee shall waive rights to this classification only. The employee shall continue to have rights to other equal or lower rated classifications.

ARTICLE XXI

PAY DAY

Pay day shall be every Friday, and pay checks shall be issued which will indicate straight time hours worked and overtime hours worked and all deductions on a deduction slip detachable from your pay check.

ARTICLE XXII

REPRIMANDS

All reprimands will be removed from employee files after one (1) year from date of occurrence, provided that the employee has demonstrated a definite improvement in his overall work performance and work habits.

The Company agrees that disciplinary actions shall be given immediately following the completion of the investigation of each incident.

ARTICLE XXIII

NO LOSS OF PAY

It is agreed between the Company and the Union that the stewards and the negotiating committee will not lose pay as a result of negotiating this agreement or processing grievances.

ARTICLE XXIV

GROUP INSURANCE AND PENSION

SECTION 1. The Company and the Union have agreed on a Program of Insurance Benefits and each employee will receive a booklet giving the features of the plan. The Company will contribute 100% of the cost of this program for employee coverage. During the first year of this Agreement, the employee cost for dependent insurance will be \$60.00 per month. Thereafter, the Company will assume 80% of any increase in cost and the employee will assume 20% of the increase. In years two and three of this Agreement, the maximum increase in employee cost for family coverage is capped at five dollars (\$5.00) each year.

SECTION 2. Effective June 1, 1997, the Employer agrees to pay for each employee covered by this Agreement on the first working day of each month, excluding calendar days that are not working days, the sum of \$69.00 per month to the Trustees of District No. 9, I.A. of M. and A. W. Pension Trust. Effective June 1, 1998, the Employer agrees to pay for each employee covered by this Agreement on the first working day of each month, excluding calendar days that are not working days, the sum of \$80.50 per month. Such monthly payment shall be made for every calendar month and on or before the 10th day of each such month. Newly hired and recalled employees beginning work on the first working day of each month, excluding calendar days that are not working days, shall also be covered by the provisions of this paragraph.

If an employee is absent because of illness or off-the-job injury and notifies the Employer of such absence, the Employer shall make the required contribution of one (1) month. If an employee is injured on the job, the Employer shall continue to pay the required contributions until such employee returns to work; however, such contributions shall not be paid for a period of more than six (6) months.

The Pension Plan, as amended, has been approved by the U.S. Internal Revenue Service as a qualified Pension Plan, and contributions made to the Trustees do not constitute taxable income to the employees participating therein and do constitute a taxable deduction to the Employer.

The Employer shall be under no obligation to see to the application of such moneys as are paid into said Pension Trust, but said Trust shall be audited annually by a reputable Certified Public Accountant without expense to the Employer.

Contributions made pursuant to this Article shall be held in trust by a Board of Trustees consisting of two Trustees representing the Union, two Trustees representing the contributing Employers and one neutral Trustee. The Employer agrees to be bound by the District No. 9, I.A.M.A.W. Pension Trust Agreement as amended from time to time.

It is hereby mutually declared and agreed that the foregoing provisions of this Article are of the essence of this entire Agreement. That this Agreement would not have been entered into but for the inclusion of said Article therein, and that any breach of this Article or any failure literally and fully to comply therewith by the Employer shall be and constitute a material violation of this entire Agreement entitling the Union at its option to engage in a strike or work stoppage against the Employer, notwithstanding any other provisions of this Agreement to the contrary or to elect to rescind the entire Agreement.

It is further agreed that if the Employer fails to comply with the provisions of this Article by not making prompt and timely payments of the monthly contributions required hereby (the total amount of which delinquency, hereinafter referred to as "such delinquency", shall be and constitute a debt owed by such Employer to the aforesaid Trustees), then and in addition to all other remedies or courses of action on account thereof available to the Trustees and/or the Union (including the right to strike), such delinquency shall be recovered as a debt owed by the Employer to the aforesaid Trustees by a suit or action at law brought by said Trustees and/or the Union; provided that the

Employer further agrees in any such suit or action to be liable for (and hereby agrees to pay), in addition to the amount of such delinquency, all costs of court, interest at the maximum lawful rate computed from the day following the due date of each said delinquent monthly contribution, and a reasonable fee for the attorney or attorneys representing the Trustees and/or Union in such suit or action, the amount thereof to be fixed by the court.

The Union and/or the Trustees shall have the authority to conduct audits of the Employer's financial records for the purpose of determining the Employer's compliance with its obligations to contribute to the Pension Trust. The Union and/or the Trustees shall give written notice of the audit at least five (5) days in advance of the commencement of the audit. In the event that an audit discloses a delinquency exceeding \$200.00, the Employer shall be responsible for the costs of the audit unless delinquent amounts are paid within sixty (60) days.

ARTICLE XXV

APPRENTICESHIP & TRAINING PROGRAM

SECTION 1. Should the Company decide to establish an Apprenticeship Program, it agrees to do so in cooperation with the Machinists' Apprenticeship Standards jointly developed by representative employers and District No. 9, International Association of Machinists and Aerospace Workers, registered and approved by the Federal Committee on Apprenticeship, United States Department of Labor.

SECTION 2. Management will devise a program by which employees can enhance their skills. The purpose of this program will be to develop internal candidates for the higher paying machine shop jobs. The program could include further training on blueprint reading, shop math or actual hands on training in the machine shop.

The Company will provide in-house courses for blue print reading and ship math. Mazak training will be provided by the Company. Employees will utilize the tuition reimbursement program offered by the Company for all other training. The Company will provide lists of courses available. Lead pay will be paid to the trainer when training in primary machining.

SECTION 3. Machine shop positions that require test will have the test administered by an Engineer. The Union Steward or Committeeman will have access to the process.

The starting rate per hour for apprentices shall be sixty percent (60%) of the area rate. Apprentices' rates shall be increased each one thousand (1,000) hours of employment, the equivalent of one-eighth (1/8th) the difference between the apprentices' starting rate and the minimum rate of the Tool Room Machinists, until the minimum rate is reached.

ARTICLE XXVI

MANAGEMENT

Subject to the provisions of this Labor Agreement, the management of the Company's plant and works and the direction of its working forces, including the right to hire and to relieve employees from active duty because of lack of work or other legitimate reasons and the right to suspend, discipline or discharge for just cause shall be vested exclusively in the Company; however, the above provisions shall be subject to the grievance provisions of this contract.

ARTICLE XVII

LEAVES OF ABSENCE

SECTION 1. Any employee, upon written application for personal reasons, may be allowed a leave of absence without pay not to exceed thirty (30) days when in the judgment of the Company such leave of absence is for justifiable cause. If, however, the employee accepts employment elsewhere during his leave of absence, he shall be considered to have terminated his employment. The Union shall be notified of all leaves of absence granted under this provision.

SECTION 2. Maternity leave as such no longer exists. Pregnancy is considered to be a disability; as such, all provisions relative to the Sickness and Accident Program are applicable to disability due to pregnancy, childbirth and related conditions.

The determination of an employee's disability to perform a job shall be based on the employee's attending physician's evaluation in accordance with the procedures established under the Company Sickness and Accident Program.

SECTION 3. Extension of a leave of absence for an additional thirty (30) day period may be granted by the consent of the Company for a good cause shown, if requested by employee in writing, before the expiration of the thirty (30) days of a leave of absence.

SECTION 4. Employees finding it necessary to absent themselves because of illness for a period in excess of thirty (30) days shall be subject to the procedure and limitation established in Article VII, Section 10, Paragraph (g).

SECTION 5. In the event that an employee of the Company shall enlist or its inducted into the United States Armed Forces, the Company will return them to their respective positions when they are dismissed from such armed forces and give them credit for seniority for the time spent in such armed forces, provided that such employees would, under normal working conditions then prevailing, be so employed by the Company, are not physically incapacitated to perform their usual work efficiently, report for work within three (3) months of discharge from such armed forces and present a discharge which is not dishonorable.

SECTION 6. Employees with an illness causing constant periodic absence must take a leave of absence until such time as illness is controlled to permit full-time employment.

SECTION 7. Employees allowed personal leaves will not be required to use more than half of their remaining vacation allotment; however, if an employee only has one week or less remaining, the employee will not be required to use their last week.

ARTICLE XXVIII

SEVERANCE ALLOWANCE

When in the sole judgment of the company it decides to close permanently a plant and terminate the employment of individuals, an employee whose employment is terminated directly as a result thereof shall be entitled to a severance allowance in accordance and subject to the following provisions:

A. Such an employee to be eligible for severance allowance shall have accumulated three (3) or more years of continuous Company service as computed in accordance with Article VII, Section 2, Seniority of the Agreement.

B. An eligible employee shall receive severance allowance calculated and based upon the employee's vacation entitlement provided for in this Agreement, except that the severance allowance for employees with fifteen (15) or more years of service as of 8/31/87 shall be calculated based upon the number of weeks vacation each employee received in 1987.

C. Severance allowance shall not be duplicated for the same severance whether the obligation arises by reason, by contract, law or otherwise. If an individual is or shall become entitled to any discharge, liquidation, severance or dismissal allowance or payment of similar type of reason of any law of the United States of America or any of the States, Districts, or Territories thereof subject to its jurisdiction, the total amount of such payment shall be deducted from the severance allowance of which the individual may be entitled under this article, or any payment made by the Company under this article may be offset against such payment. Statutory unemployment compensation payment shall be excluded from the non-duplication provisions of this section.

D. Payment shall be made in a lump sum at the time of termination. Acceptance of severance allowance shall terminate employment and continuous service for all purposes under this agreement and supplemental insurance benefits outlined in the PIB.

ARTICLE XXIX

LEGALITY CLAUSE

If any provision or the enforcement or performance of this Agreement is or shall at any time be contrary to law, then such provision shall not be applicable or enforced or performed, except to the extent permitted by law. If, at any time thereafter, such provision or its enforcement or performance shall not longer conflict with the law, then it shall be deemed in full force and effect.

ARTICLE XXX

TERM

The Agreement shall become effective June 1, 1997 and shall remain in force and effect until May 31, 2000 (11:59 P.M.). If written notice shall have not been given by either party to the other at least sixty (60) days prior to the expiration date of any intention to request termination, Agreement shall automatically remain in force from time to time for a period of an additional year.

IN WITNESS WHEREOF, the parties have hereto set their names by their duly authorized representatives the day and year first above written at St. Louis, Missouri.

ALLIED HEALTHCARE PRODUCTS, INC.
BY: /s/ Ted Atwood

Ted Atwood
Vice President Human Resources

BY: /s/ Gabriel S. Kohn

Gabriel S. Kohn
Vice President Engineering &
Operations

BY: /s/ Thomas O. McCarthy

Thomas O. McCarthy
Attorney

DISTRICT NO. 9, INTERNATIONAL
ASSOCIATION OF MACHINISTS AND
AEROSPACE WORKERS
BY: _____
Dennis Williams
Business Representative

BY: _____
James A. Annable
Chief Steward

BY: _____
Joseph Puglisi
Committeeman

BY: _____
Patricia I. Esparza
Committee Person

APPENDIX A

Existing Classification	----- Wage Rates-----		
	Effective 6/1/97	Effective 6/1/98	Effective 6/1/99
	Wage Rates	Wage Rates	Wage Rates
-----	-----	-----	-----
Tool & Die Maker	\$17.17	\$17.52	\$17.87
Tool Room Machinist	16.73	17.08	17.43
Precision Form Tool/Grinder	16.73	17.08	17.43
Set-Up Single Spindle	13.42	13.77	14.12
Set-Up Specialist	13.33	13.68	14.03
General Maintenance "A"	13.19	13.54	13.89
Set-Up Operate Secondary/Fabrication	12.68	13.03	13.38
Floor Inspector	12.13	12.48	12.83
Pump & Compressor Builder	12.10	12.45	12.80
Shipping & Receiving	11.78	12.13	12.48
General Maintenance "B"	11.32	11.67	12.02
Machine Operator/Set-Up	11.07	11.42	11.77
Welder Set-Up & Operate	10.78	11.13	11.48
Machine Operator-Screw Machine/CNC	10.75	11.10	11.45
Tool Crib Attendant	10.64	10.99	11.34
Manifold Assembler/Tester	10.45	10.80	11.15
Silver Solder	10.34	10.69	11.04
Electrical Assembler/Tester	8.65	9.00	9.35
Electrical Assembler	7.65	8.00	8.35
Welder	10.21	10.56	10.91
Machine Operator Fab, Weld, Second	10.20	10.55	10.90
Machine Operator/Wood	10.20	10.55	10.90
Machine Operator/Silkscreen	9.15	9.50	9.85
Truck Driver	8.65	9.00	9.35
Packer, Material Handler, Process	7.65	8.00	8.35
Column Assembler	8.15	8.50	8.85
Spray Painter	8.15	8.50	8.85
Packer-Material Handler	7.65	8.00	8.35
Washer & Degreaser	7.65	8.00	8.35
General Laborer	7.65	8.00	8.35
Filler Tester	7.65	8.00	8.35
Assembler	7.65	8.00	8.35
Janitor	7.65	8.00	8.35
Laborer	5.85	6.20	6.55

APPENDIX B

We, the parties, Allied Healthcare Products, Inc. and the International Association of Machinists and Aerospace Workers, District No. 9, during 1985 negotiations, agreed to the following policy regarding assembler classifications.

1. All assembly work throughout the various departments of the Company is within the scope of the assembly classification.
2. The Company may permanently transfer assemblers among the various departments per the following:
 - a. Any assembly person may be requested to transfer. Unless they are the least senior assembly person in the department they may decline the offer of transfer.
 - b. Once an assembly person has declined the Company may ask another assembly person or at its option, transfer the least senior assembly person within the same department.
3. In the event an employee is reduced in any department for any reason, he/she will be allowed to select any department within the Assembly classification in which an opening is available, based on seniority.
4. When it is necessary to transfer an assembler from one department to another, on a temporary basis, those assemblers in the plant who are available as a result of a breakdown or lack of work will be utilized. In the case in which two or more assemblers performing the same operation are affected, the lowest seniority assemblers will be transferred. For the purpose of this section, a temporary transfer will not exceed twenty working days.

LETTER

May 26, 1994

Mr. Donald Coker
International Association of Machinist
District No. 9
12365 St. Charles Rock Road
Bridgeton, MO 63044

Subject: Side Letter Regarding "A" Rate Employees

Dear Don:

To clarify Management's position on the consolidation of classifications and the elimination of the "A" rate pay scale as presented in the contract, Management agrees to the following:

1. That the current "A" rate scale will be maintained by Allied as an accounting function;
2. Current "A" rate employees will continue to receive that rate plus any increases established during this negotiations;
3. Any "A" rate employee who is displaced from their current classification as a result of a reduction in force will receive the "A" rate of pay for their new classification;
4. Any "A" rate employee who is awarded a bid on a higher rated classification will receive the appropriate "A" rate for that classification;
5. Any current lead person who is paid over an "A" rate classification will continue to be paid at that rate. At such time as there is no longer an "A" rate in that persons work group, the lead person's pay will be adjusted. Lead persons "grandfathered" in the 1991 contract will continue to be protected from reduction while they hold that lead position.

Sincerely,

/s/ James M. Mac Nee

James M. Mac Nee
Vice President
Human Resources

May 9, 1973

Mr. Wayne McCall
International Associate of
Machinists and Aerospace Workers
12365 St. Charles Rock Road
Bridgeton, MO 63044

Dear Mr. McCall:

It is agreed that if, during the terms of this Agreement, the Company, at its discretion establishes a new job classification, the Company will determine a wage rate for the new job classification, so that the established rate will be in proper relationship with comparable requirements of the previously established classification set forth in Appendix "A" of the Contract.

The rate for the new classification will be submitted to the Union, or its authorized representatives. The Union may challenge the appropriateness of the job rate as being inconsistent with the established wage structure at any time within (5) working days after the new classification and rate are posted.

If agreement as to the new rate for the new classification is reached, the established rate shall be retroactive to the date on which the job was filled on a full time permanent basis. The established rate shall not be applicable to periods during which an employee was used on the new job for experimental or developmental purposes; however, any employee used for such purposes will receive not less than his regular base rate of pay for time spent during such experimental or developmental periods.

If agreement is not reached, the Company may apply the rate it considers proper in accordance with the principles outlined above and made effective as provided above. However, the Union may challenge the appropriateness of the new classification rate, with full recourse to the grievance and arbitration procedure.

The Company agrees that job openings created by the establishment of a new classification shall be subject to the bidding procedure outlined in Article VII of the Contract.

Very truly yours,

/s/ Ronald F. Gniadek

Ronald F. Gniadek
Personnel Manager

May 9, 1979

Mr. Donald M. Coker
Business Representative
District No. 9, I.A.M.A.W.
12365 St. Charles Rock Road
Bridgeton, MO 63044

Dear Mr. Coker:

This letter is sent to explain the Agreement between the Company and the Union concerning the intent of Article VII, Section 8, Seniority. The section reads as follows:

"Employees who desired to be considered for a promotion, a lateral or downward transfer, or a change of shift, shall register their desire with the department foreman in writing, dating and signing their individual request."

With regard to promotion, the intent is for the employee to notify the Company of educational courses or skills he has acquired since joining the Company which may have application on a higher classified job. At the same time, it can also serve as notification to the Company of an employee's desire to be considered for a non-bargaining unit position.

Employees who desire to be considered for a lateral or downward transfer must make a written request. The Company shall maintain a list of these requests. When an opening becomes available in the specific job classification, the Company will follow the normal bidding procedure. Except as provided in Article VII, Section 6, employees will not be permitted to bid on lateral or down, however their written request submitted prior to the opening of a bid will serve as notification that they wish to be considered for the opening. These employees will be considered along with the employees who bid on the position. All employees will be judged in accordance with the qualifications outlined in Section 6 of the Article.

The Company and the Union agree that the seniority should be a major consideration in shift assignment when practicable to do so. The Company will take seniority into consideration when shift assignments are made. When an employee desires a change in shift, he will notify his Foreman in writing of this desire. The Company shall maintain a list of employees desiring a change of shift. As openings become available within the employee's job classification the company will attempt to transfer the employees to the desired shift. When openings do not exist, the Company will make an effort to locate another employee to the same job classification willing to make a mutually agreeable change in shift and will make the transfer. It is understood that bumping for shift preference will not be permitted, except as provided in Article VII, Section 4(c).

Very truly yours,

/s/ Ronald F. Gniadek

Ronald F. Gniadek
Director, Employee Relations

JOB DESCRIPTIONS

TOOL AND DIE MAKER

Specializes in construction, repair and maintenance of Machine Shop tools and, in addition, ability to plan, lay out and construct from simple sketch, blueprints and/or own ideas which are finally approved by supervisor, complicated tools, dies, jigs, gauges, fixtures. Must understand working details of all shop machine tools and be able to make necessary repairs on them, being able to construct new parts for same if occasion should arise. Understands blueprints and written specifications, and uses skillfully all measuring instruments. Operates all machine tools. Must possess knowledge of shop mathematics; use of charts and tables, the efficient planning of shop work; the dimensions and uses of standard bolts, screws, threads, and tapers, must be familiar with working properties of such metals as aluminum, brass, bronze, cast and wrought iron and various steels. Works to complete accuracy. Must understand heat treatment of various tool steels. Must furnish own tools except special instruments and tools mutually agreed to between the Company and the Union.

TOOL ROOM MACHINIST

Tool Room Machinist must be able to perform all duties required of a qualified Tool Room Machinist. Carries through to completion the actual construction, complicated repair of all kinds of metal parts, tools, machines and equipment with the exception of mending dies, but including keeping motors and line shafts oiled; uses skillfully all machinists' tools; operates all types of machine tools; possesses knowledge of job mathematics, the use of charts and tables, the efficient planning of jobs, the use of standard bolts, screws, threads and tapers; also possesses the knowledge, within limits, of the electrical equipment; must be familiar with the working properties of such metals as aluminum, brass, cast and wrought iron and various steels and be capable of shaping metal parts to precise dimensions within close tolerances described. This classification does not include such jobs as Tool and Die Maker.

PRECISION FORM TOOL GRINDER

Diversified work. Grinding tools includes the grinding of complicated tools, dies, form drills, gauges, etc. Set angles, dress wheels in shape. Occasionally lay out profile template to insure accuracy. Considerable judgment in setting up to obtain relationship between inter-related dimensions. Maintain close tolerances usually within .0002. Grind tools from drawings, sketches or oral instructions on occasions.

SET-UP SINGLE SPINDLE

Set-Up and operate any job including a wide range of unusual operations on an assigned type of single spindle automatic screw machine using proper cams, speeds and feeds to efficiently operate same. Must possess a knowledge of blueprint reading, the use of precision measuring devices in order to produce parts to required tolerances, plan sequence of operations, sharpen all tools (such as forming tools, drill-bushings, drills, boring tools, cut-off tools, chasers and reamers). This must be done with minimum instruction and supervision. Will be responsible for quality of parts produced until machine is assigned to operator. Assists in instruction of Set-Up Trainees and Operators. Diagnose screw machine trouble, make mechanical adjustments. May be assigned to remove and/or replace worn or defective parts. Must have the fundamental tools to safely and effectively perform the job.

SET-UP SPECIALIST

Efficiently sets up and may operate all machines other than screw machines and multispindle chuckers. Must have specific job experience and detailed knowledge related to C.N.C./M.C. machines, tools and presses, automatic turret lathes, vertical boring machines and special machine centers. Must be able to read blueprints and precision measuring devices. Must be capable of sharpening all tools, except those requiring specialized grinding. Does not include making form tools from blanks. Will be held responsible for the quality of parts produced until machine is assigned to operator. These functions must be performed with minimum instruction and supervision. Assists in instruction of Set-Up and Operate, Machine Operator/Set-Up and Machine Operators. May be assigned to remove and/or replace worn or defective parts. May be required to perform die changes other than progressive dies. Must have the fundamental tools to safely and effectively perform the job.

GENERAL MAINTENANCE "A"

Must have previous specific job experiences and detailed knowledge relating to industrial maintenance and production equipment in fields such as hydraulics, pneumatics, electrical components and trouble shooting analysis.

Must know how to use basic hand tools and machines as required to perform duties. Must be able to read blueprints, schematics and detailed parts breakdown.

Would direct the activities of all lesser maintenance classification personnel working with him on a specific assignment. May be required to perform functions of lower maintenance classification.

SET-UP AND OPERATE - FABRICATION

Efficiently sets up and operates machines such as broaches, press brakes, shears and punch presses, but not limited to fabrication machines.

Must be able to read blueprints and precision measuring devices. Must be capable of sharpening all tools, except those requiring specialized grinding. Does not include making form tools from blanks. May be required to perform die changes other than progressive dies. Will be held responsible for the quality of parts produced until machine is assigned to operator. Assists in instruction of Machine Operator/Set-Up and Machine Operators. All of the above functions must be performed with minimal instruction and supervision. Must have the fundamental tools to safely and effectively perform the job.

SET-UP AND OPERATE - SECONDARY

Efficiently sets up and operates machines such as, but not limited to, the following: drill presses, tappers, engine lathes, turret lathes, broaches, milling machines, sanders, saw and welders. Must be able to read blueprints and precision measuring devices. Must be capable of sharpening all tools and making drill bushings, except those requiring specialized grinding. Does not include making form tools from blanks. Will be held responsible for the quality of parts produced until machine is assigned to operator. Assists in instruction of Machine Operator/Set-Up and Machine Operators. All of the above functions must be performed with minimal instruction and supervision. Must have the fundamental tools to safely and effectively perform the job.

FLOOR INSPECTOR

Inspector checks parts to satisfy specifications of complicated drawings. Must be able to use all standard measuring instruments. Must be experienced in blueprint reading and inspection. Will properly interpret drawings and inspect parts and/or assemblies for compliance with standards. Is responsible for quality of parts approved. Must have the fundamental tools to efficiently perform the job.

PUMP AND COMPRESSOR BUILDER

Diversified work. Ability to plan, layout and form simple sketch and blueprints, construct complicated air compressors and vacuum pumps. Perform assembly duties including the use of assembly devices such as drills, grinders, belt sanders, punches, air drivers, nut runners, and other hand tools. Efficiently sets up and operates machines such as, but not limited to, the following: Shears, presses, tappers, sanders, saws, iron pipe threaders, and welders. Must be able to dress wires, install and wire high voltage connections and wire harnesses. Efficiently operate spray paint booth. Make adjustments and maintain spray paint booth. Make adjustments and maintain spray equipment. Perform a variety of hand soldering and brazing operations on various metals as required. Also includes in-process inspection, testing, moving and lifting heavy components, and packaging parts for shipment.

SHIPPING AND RECEIVING CLERK

Ships and receives all incoming and outgoing material and equipment. Verifies counts and correctness of shipments received and sent. Completes necessary paperwork as required. Directs activities of assigned personnel to perform duties.

GENERAL MAINTENANCE "B"

Must have previous job experience and knowledge that permits the performance of general maintenance work on buildings and equipment.

Experience must indicate the ability to perform general duties in fields such as carpentry, sheet metal, welding, electrical work, and plumbing. Must be semi-skilled in at least two crafts, with working knowledge of others.

Must know how to use basic hand tools and machines as required to perform duties.

May be required to perform functions of lower maintenance classifications.

MACHINE OPERATOR/SET-UP

Efficiently operates various assigned machines, except automatic screw machines and assembly machines. In addition, must be capable of setting up at least three machines. Will be responsible for quality of parts produced. Must have the fundamental tools to safely and effectively perform the job. Must possess the knowledge of blueprint reading and the use of precision measuring devices.

WELDER/SET-UP AND OPERATE

Performs a variety of hand and machine MIG and TIG welding operations on steels, stainless steel, aluminum, and other metal parts. Responsible for a quality check on all welds in department. Set-up, check and adjust all welding equipment as needed. Must possess the knowledge of blueprint reading and the use of precision measuring devices.

MACHINE OPERATOR - SCREW MACHINE/CNC

Efficiently operates jobs on one or more assigned single spindle automatic screw machines, or CNC's, checks work and produces parts within required tolerances, maintains set-ups and sharpens tools. Will be responsible for quality of parts produced. May make partial set-ups with assistance and instruction. Must have the fundamental tools to safely and effectively perform the job. Must possess the knowledge of blueprint reading and the use of precision measuring devices.

TOOL CRIB ATTENDANT

Responsible for all materials and equipment assigned to tool crib. Issues tools and supplies, orders and maintains running inventory and counts. Sharpens tools as instructed. Visually inspects tools for damage and reports unusual conditions.

MANIFOLD ASSEMBLER/TESTER

Assemble a variety of subassemblies and bench erect complete units having light and average weight parts. Select assembly methods. Fit parts to close tolerances and operating requirements, involving use of hand and power tools. Accurately align subassemblies to the unit. Mount and connect auxiliary, mechanical, electrical, electronic, pneumatic or hydraulic equipment, cut and fit pipe and tubing. Make operating tests for high pressure gas regulation and final adjustments. Includes inprocess inspection, testing, packaging parts for shipment and movement of material.

SILVER SOLDER

Performs a variety of hand or machine torch soldering and brazing operations on various materials as required by engineering drawings and specifications.

WELDER

Performs a variety of hand and machine MIG and TIG welding operations on steel, stainless steels, aluminum and other metal parts. Responsible for a quality check on all welds in department. Check and adjust all welding equipment as needed. Must possess the knowledge of blueprint reading and the use of precision measuring devices.

MACHINE OPERATOR - FABRICATION

Efficiently operates various assigned machines, except automatic screw machines and assembly machines. May make partial set-ups with assistance and instruction. Will be responsible for quality of parts produced. Must possess the knowledge of blueprint reading and the use of precision measuring devices.

MACHINE OPERATOR - SECONDARY

Efficiently operates various assigned machines, except automatic screw machines and assembly machines. May make partial set-ups with assistance and instruction. Will be responsible for quality of parts produced. Must possess the knowledge of blueprint reading and the use of precision measuring devices.

MACHINE OPERATOR - WELDING MACHINES

Efficiently operates various assigned welding machines and assembly machines. May make partial set-ups with assistance and instruction. Will be responsible for quality of parts produced.

MACHINE OPERATOR - WOOD

Bench or progressive line assemble, a wide variety of standard and non-standard wood units, subassemblies and final assemblies having many parts and details, where difficult adjustments may be required to fit, align and ensure free action of moveable parts. Work from detailed assembly drawings to select, obtain, set up and use power and hand tools, equipment, testing devices, gaugers, assembly jigs and fixtures, templates and material such as glue, filler and sandpaper. Fit, join, saw, attach, glue, sand route, drill and install parts. Inspect for adherence to tolerance and finish specifications.

MACHINE OPERATOR - SILKSCREEN

Prepare and operate screen printer on a wide variety of custom and standard product surfaces, circuit boards, instrument panels and miscellaneous parts, requiring precise registration and ink penetration. Burn in and prepare new screens as required. Select and clean screen and fixtures, select inks and paint, mixing and thinning as necessary. Make simple, holding or aligning devices as required. Check and touch up definition on work piece, spray paint special parts, load and unload dryer. Use screen making and circuit board equipment as required.

ELECTRICAL ASSEMBLER/TESTER

Perform wiring, assembling and soldering operations on a variety of products and parts, sub-assemblies, electrical or electronic chassis and P.C. boards. Must understand and work from drawings, wiring and schematic diagrams, and follow standard methods and procedures. Must be able to follow color code, dress wires, install and wire all connections and assemble wire harnesses. May also perform duties of Assembler Classification. Must be able to operate calibration equipment (such as flow, pressure, volume and electrical equipment) and to test, at a component level, individual circuits on printed circuit boards.

ELECTRICAL ASSEMBLER

Performs wiring, assembling and soldering operations on a variety of products and parts, sub-assemblies, electrical or electronic chassis and P.C. boards. Must understand and work from drawings, wiring and schematic diagrams and follow standard methods and procedures. Must be able to follow color codes, dress wires, install and wire all connections and assemble wire harnesses. May also perform duties of Assembler Classification.

TRUCK DRIVER

Make pick-ups and deliveries as instructed. Operate and perform routine checking (fuel, oil, water, air) of Company truck. Report any malfunctions to supervisor. Also performs duties of Packer-Material Handler as directed. Must have appropriate chauffeur's license.

PACKER, MATERIAL HANDLER, PROCESSOR

Prepares and packages parts for shipment. Performs all types of material handling duties plus pulling raw materials and bar stock including operation of material handling equipment. Also processes parts going to and from outside vendors. Accurately completes paperwork necessary to perform duties of this classification.

COLUMN ASSEMBLER

Performs assembly duties including the use of assembly devices such as drills, grinders, belt sanders, punches, air drivers, nut runners, and other hand tools. Must be able to efficiently operate cutoff saws and drill presses according to scale drawings using precision measuring devices. Clean, degrease, and paint fabricated parts as required. Efficiently operate welders and brazing equipment and perform visual and pressure tests as required. Also includes in-process inspection, testing, packaging parts for shipment including movement of material.

SPRAY PAINTER

Efficiently operates spray paint booth and assist with Degreaser operation. Insures a quality paint coating on all items painted. Load and unload paint conveyor and maintain cleanliness of spray equipment and area. Make adjustments and maintain spray equipment. Move materials as required within the department.

PACKER-MATERIAL HANDLER

Prepares and packages parts for shipment. Performs all types of material handling duties, plus pulling raw material including operation of material handling equipment and packaging machines. Accurately completes paperwork necessary to perform duties of this classification.

WASHER AND DEGREASER

Wash and degrease parts from any area that requires cleaning, maintain proper operation of all cleaning equipment, handle material and perform other unskilled jobs as required.

GENERAL LABORER

May perform any one or more of the following duties: removing turnings and oil from machines, wash and degrease parts, handle material, cleaning, perform other unskilled jobs as required.

FILLER TESTER

Turn on and check all fill and test equipment. Monitor test equipment for proper operation. Ensure that all rejects are identified and kept separate from good production. Perform deburring, purging, valving, visual inspection and filling operations. Maintain control of lot numbers. Move materials within the department as required.

ASSEMBLER

Performs assembly duties, including the use of assembly devices such as drills, rivets, staplers, air drivers, nut runners, ultrasonic and solvent bonding equipment, etc. either pneumatic, hydraulic or electric or a combination thereof. Also includes packaging, complex testing, in-process inspection and movement of material within the department as required.

JANITOR

Cleans and keeps in an orderly condition factory working areas, washrooms, and offices. Duties include: sweeping, mopping, polishing, window washing, and other housekeeping duties.

SCREW MACHINE SET-UP TRAINEE - SINGLE SPINDLE

Efficiently operates jobs on one or more assigned single spindle automatic screw machines, checks work and produces parts within required tolerances, maintains set-ups and sharpens tools. Must make set-ups on assigned type of single spindle automatic screw machines as required by Company Training Program. Will be responsible for quality parts produced. Must be advanced to Set-Up Man Single Spindle or must return to Operator classification with time limits established in Company Training Program. This classification may require assistance. Must have the fundamental tools to safely and effectively perform the job.

FLOOR INSPECTOR TRAINEE

Floor Inspector Trainee will be held increasingly responsible for the requirements of the job description of Floor Inspector. Must have some prerequisite mechanical and mathematical ability. Must be advanced to Floor Inspector or return to classification from whence he came within prescribed time limits.

LABORER

The laborer classification does not apply to the work currently done (6/1/94) in this facility and is prompted by one of our recent acquisitions. A Laborer will perform simple packaging and related hand work on disposable products only and grounds keeping. Neither the simple packaging nor the hand work will be construed to erode the classifications of packer Material Handler or Assembler. These are new positions that otherwise would not have existed. The Company has agreed that in the event of a reduction in force, any existing employee that is bumped to the laborer classification will retain the Assembler rate of pay. In the first year of the Agreement, Laborers will be restricted to no more than 10% of the bargaining unit. This will be increased to 15% in the second year and 20% in the third year.

AGREEMENT

Between

HOSPITAL SYSTEMS, INC.

and

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS
LOCAL 2131

May 1, 1997

to

April 30, 1998

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THIS AGREEMENT between the HOSPITAL SYSTEMS, INC., whose names are affixed to the final sheet of this Agreement, hereinafter called the "Employer", and LOCAL UNION NO. 2131 of the INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, hereinafter called the "Union".

WITNESSETH

WHEREAS, a majority of the employees of the Employer in the collective bargaining unit to be covered by the terms of this Agreement have designated the Union as the collective bargaining agent, the Employer herewith recognizes the Union as the sole and exclusive collective bargaining representative for all employees in the unit in all matters pertaining to wages, hours and working conditions, and

WHEREAS, the parties hereto desire to establish a standard of conditions and procedure under which employees shall work for the Employer during the term of this Agreement and desire to regulate the mutual employment relations between the parties for the purpose of securing harmonious cooperation and settling of all disputes by peaceful means that may arise in the employee/Employer relationship.

NOW, THEREFORE, in consideration of the mutual promises and agreements herein contained, the parties agree as follows:

SECTION 1. MANAGEMENT

The parties hereto have a mutual interest in securing efficient business operation and desire to cooperate to that end. It is the duty and right of the Employer to manage the business and direct the working forces, subject to the conditions herein set forth. This includes, but is not limited to, the right to hire, reassign, promote, demote, layoff and discharge, but each employee covered by this Agreement shall possess the right of appeal through the grievance procedure as provided by the terms of this Agreement.

SECTION 2. UNION RECOGNITION AND SECURITY

The Employer recognizes the Union as the sole and exclusive bargaining agency for all employees in the unit consisting of classifications as defined in Schedule "A", attached hereto and made a part of this Agreement. All employees shall become members of this bargaining unit upon completion of their probation and remain members of the Union, as a condition of their employment, during the life of this Agreement, and the Union shall notify the Employer promptly in writing of the failure of any such employee to become or remain a member of the Union; provided, however, that the Union shall not request the Employer to discriminate against any employee for non-membership in the Union, if such membership is not available to the employee on the same terms and conditions generally applicable to other members, or if membership is denied or terminated for reasons other than the failure of the employee to tender the periodic dues or initiation fee uniformly required by the Union as a condition of acquiring or maintaining membership.

For the duration of this Agreement, the Employer shall deduct from the first pay period of each month, Union dues and remit same to the Local Union within ten (10) days, upon receipt of a Dues Authorization Card signed by the employee. Initiation fees shall be deducted within the first two (2) paychecks after completion of the

probationary period and upon receipt of an authorization card signed by the employee. This authorization shall continue until revoked by the employee giving written notice to the Employer, by registered mail postmarked or received by the Employer either (a) during the period from the first June 24th to the first July 1st, both inclusive, after the effective date of this authorization, or (b) during the same period of each year thereafter, or (c) after the termination of the Agreement between the Employer and the Union.

Through the representation of the Union, employees shall have the right to a hearing on any differences of opinion as to the competency of any employee to fill a new position or vacancy of promotion or demotion, or discipline administered, or layoffs, or discharges or of discrimination. Such hearings shall follow the established grievance procedure.

In the matter of suspension, demotion or discharge, if after hearing witnesses the charges are not sustained, the employee may have his record cleared of such charges and in case of loss of wages, may receive reimbursement of such loss. No discipline by temporary suspension shall be administered to any employee which shall permanently impair his seniority rights. The shop steward shall be notified in writing of any of the above action.

The Employer agrees that he will not sublet, assign or transfer any work in connection with electrical work to any other person, firm or corporation if such subletting, assigning or transfer will cause the loss of work opportunities to employees in the individual Employer's establishment covered by this Agreement. Any such subletting, assigning or transfer shall be allowable after a mutual determination has been made by the representatives of the parties that such action is not in conflict with the preceding sentence.

The business of the representatives of the Union, pertaining to this Agreement, is with the office of the Employer but he shall be permitted to enter the plant at any time the plant is operating after obtaining clearance from management, which shall not be unreasonably denied. It is understood that upon entering the plant, the representative of the Union will not interfere with the normal operations of the business.

The Employer will recognize shop stewards, selected in accord with the Union rules and regulations, as representatives of the employees in the respective groups or departments for which they are chosen. There shall be one shop steward for each twenty-five (25) members or fraction thereof in any one building. The Union will notify the Employer as to the identity of stewards and steward groups. Stewards shall be free to conduct their Union duties at any time within their regularly scheduled working hours and for one (1) hour before and after such working hours, within the Employer's grounds. They shall not leave their working station on Union business without the expressed permission of the section supervisor, which shall not be unreasonably denied.

The Employer and employees agree that duly chosen stewards shall not be restricted by seniority during their term of office and that they shall be given opportunity for employment at any time that three (3) or more employees are working.

The Employer understands that the choice of, and removal from office, of stewards is a function of the Union. The Union will notify the Employer within forty-eight (48) hours of any change in steward status.

Union meetings shall not be held on the Employer's property or the Employer's time without the Employer's permission.

The Union shall hold the Employer harmless for any and all claims, demands, suits or other action that may arise out of this Section.

SECTION 3. SENIORITY

- A. New hires shall have a probationary period of sixty-five (65) worked days. During such probationary period, the employee may be discharged for any reason without recourse to the grievance procedure.
- B. Seniority shall commence upon completion of the probationary period and shall be defined as total length of service with the Employer, credited from the date of hire.

With regard to layoffs and recalls, the principle of seniority shall govern and it is understood that no employee who has rendered long and faithful service shall be laid off as long as any work, which he can reasonably be expected to perform satisfactorily, is being performed by a person junior in seniority.

Additionally, shift preference will be by seniority insofar as the needs of the Employer will permit.

Overtime Monday through Friday will be by job continuation. Overtime on Saturdays, Sundays and Holidays will be by seniority provided the employee can properly perform the work required.

Promotions within the unit or to the first stage beyond the unit shall be based upon seniority, ability and qualifications. Ability and qualifications being sufficient, seniority shall prevail.

- C. Job Posting When the Employer elects to fill on a permanent basis a vacancy in a classification above Line Assembler then notice of such vacancy shall be posted for a period of three (3) working days.

Employees desiring a promotion who meet the qualifications and have signed the posting shall be given consideration in accordance with the seniority provisions of this Agreement.

Employees who are promoted shall undergo an evaluation period of up to thirty (30) worked days. Should the employee fail to perform to the satisfaction of the Employer during this evaluation period then the employee will be returned to his former classification.

The foregoing shall not apply to the classification of Leadman.

- D. Seniority shall be broken for:

- 1. Discharge for cause.
- 2. Resignation - A three (3) day unreported absence from work shall be considered a resignation.
- 3. Illness, accident or layoff in excess of six(6) consecutive months.
- 4. Failure to return to work from a leave of absence or vacation.
- 5. Failure to return to work when recalled within four (4) days of the mailing of a registered letter of a notice to report to work to the last known address.

E. Any employee of the Employer covered by this Agreement who is injured while on duty shall continue to accumulate seniority during his absence due to such injury and shall be reinstated upon recovery to his former position with full seniority rights, provided he is physically and mentally qualified to do the work, and provided that his job has not been abolished in the meantime or filled by an employee with greater seniority. If, by reason of the circumstances noted above, such employee cannot be reinstated to his old job, he will be returned to such job as is available and for which he is qualified by reason of fitness and ability, giving full consideration to his seniority, and if the new job is a lower-paid job, he shall be paid the highest rate of pay for that job classification. It is understood that when such a man returns to work, the regular rules of seniority will prevail for those men below him on the seniority list unless otherwise mutually agreed between the Union and the Employer.

SECTION 4. HOURS OF WORK AND OVERTIME

A. A maximum of eight (8) hours between 6:00 a.m. and 5:00 p.m. shall constitute a work day, and maximum of five (5) such days, namely Monday to Friday inclusive, shall be a work week. An employee may clock in up to six (6) minutes late three (3) times per month without pay and without disciplinary action.

Nothing in this Agreement shall prohibit the Employer from establishing staggered starting times for an employee or group of employees.

B. Overtime shall be paid as follows:

1. One and one-half (1 1/2) times the straight time hourly rate for all work in excess of eight (8) hours in a work day.

2. Double (2) time the straight time hourly rate for all work in excess of twelve (12) hours in a work day.

3. One and one-half (1 1/2) times the straight time hourly rate for the first eight (8) hours on Saturday.

4. Double (2) time the straight time hourly rate for all work in excess of eight (8) on Saturday.

5. Double (2) time the straight time hourly rate for all work performed on Sundays and Holidays.

C. Employees shall not be required to take time off for the purpose of off-setting overtime worked.

D. Regular employees shall be guaranteed four (4) hours' work or four (4) hours' pay in lieu thereof for each day they report to work. Regular employees shall be guaranteed four (4) hours' work or four (4) hours' pay in lieu thereof if required by the Employer to report to work on Saturdays, Sundays or Holidays or if business conditions warrant less hours for all employees.

The above guaranteed hours shall be waived in case of fire, flood or similar causes beyond the Employer's control.

E. The employees shall be granted a ten (10) minute break mid-morning and a ten (10) minute break at mid-afternoon.

F. The Employer will provide three (3) minutes at the end of the shift for personnel to clean themselves up.

G. It is agreed that where an employee is required to work at a point other than his assigned reporting place, he shall proceed to the location of the job and return from such job to the reporting place on the Employer's time.

H. Hours worked shall include time actually at work or on duty, including the time required by management to stand by prepared to go to work at a specific place.

SECTION 5. SHIFTS

A. The Employer may establish additional work shifts other than the shift provided for in Section 4. But no shift shall be established for a period of less than one (1) week, and not less than three (3) men shall be employed on each shift. Otherwise, the time so worked, outside of the hours scheduled in Section 4, shall be considered and paid as overtime. Employees shall be notified not less than three (3) work days prior to any change in their work schedule.

B. No shift shall be scheduled to work more than eight (8) hours in any twenty-four (24) hour period or longer than forty (40) hours in any one (1) week. Regular starting and stopping times shall be posted for each shift established and all time worked outside of the posed hours shall be paid for as overtime.

Where three (3) shifts are worked, each shift shall consist of eight (8) hours (including an unpaid thirty (30) minute lunch period), the first or day shift to start at 8:00 a.m. The second shift shall start immediately after the first shift terminates, and the third shift shall start immediately after the second shift terminates.

Fifty cents (\$.50) per hour additional over the day shift shall be paid on the second shift and seventy-five cents (\$.75) per hour additional over the day shift shall be paid on the third shift.

The shift which commences Friday at 12 Midnight and ends Saturday at 8:00 a.m. will be considered as a normal third shift and shall therefore be paid for at the rate of seventy-five cents (\$.75) per hour additional over the day shift rate, according to the classification involved.

SECTION 6. WAGES

A. The wage rate to be paid under the terms of this Agreement to employees in each occupational classification are those appearing in Schedule "A", attached hereto and made a part hereof.

B. Wages shall be paid weekly on the Employer's time. Not more than three (3) days' pay shall be withheld. Wages shall be computed from shop check-in to shop check-out or its equivalent. Employees being laid off shall receive their wages at time of layoff.

C. EFFECTIVE MAY 1, 1997, AN ADDITIONAL \$0.30 WILL BE ADDED TO ALL RATES AND PROGRESSIONS.

SECTION 7. HOLIDAYS

A. Employees covered by this Agreement shall receive with pay at the rate of straight time the following holidays when not worked:

New Year's Day	Day after Thanksgiving
Washington's B'day	Last Scheduled Work Day
Memorial Day	Day Before Christmas
Fourth of July	Christmas Day
Labor Day	Day Before New Year's Day
Thanksgiving Day	2 Float Holidays (*) with 72 hours' advance notice to Employer

*However, no more than ten percent (10%) of the employees will take their floating holidays off at any one time. The granting of such requests will be by seniority.

With regard to the above mentioned float holidays, at the option of the Employer, one (1) float holiday may be observed as a paid holiday for all eligible employees on a date fixed by the Employer, such date to be posted by the Employer no later than May 1st of each year.

B. Holidays falling on Saturday shall be observed the preceding Friday. Holidays falling on Sunday shall be observed on the following Monday.

C. To be eligible for holiday pay, an employee must have completed his probationary period with the Employer and must have worked the scheduled work day before and the scheduled work day after such holiday unless absent because of qualified illness or otherwise excused. For employees hired after May 1, 1979, they must have been employed six months in order to be eligible for the two (2) floating holidays.

D. All work performed on any one of the paid holidays shall be paid for at two (2) times the regular rate of pay in addition to the holiday pay which an employee would have received had he not worked.

SECTION 8. VACATIONS

A.) Prior to March 1st of each calendar year, or as soon as possible thereafter, Departmental heads will consult with all employees entitled to vacation and from such consultation, the employer shall establish the working schedule for the vacation period. The Employer in determining vacation schedules will respect the seniority and wishes of the employee as to the time of vacation insofar as the needs of the employer will permit.

B1.) The Employer will grant to each employee that was hired prior to May 1, 1997 one (1) week's vacation with pay after one (1) year's service; Two week's vacation with pay after two (2) year's service and three (3) weeks of vacation after four (4) years of service with the following progressions after the fourth (4th) year of service:

SIX (6) YEARS OF SERVICE	3 WEEKS & 1 DAY
SEVEN (7) YEARS OF SERVICE	3 WEEKS & 2 DAYS
EIGHT (8) YEARS OF SERVICE	3 WEEKS & 3 DAYS
NINE (9) YEARS OF SERVICE	3 WEEKS & 4 DAYS
TEN (10) YEARS OF SERVICE	4 WEEKS

B2.) THE EMPLOYER WILL GRANT TO EACH EMPLOYEE THAT WAS HIRED AFTER MAY 1, 1997 ONE (1) WEEK'S VACATION WITH PAY AFTER ONE (1) YEAR'S SERVICE; TWO WEEK'S VACATION WITH PAY AFTER THREE (3) YEAR'S SERVICE; THREE WEEK'S VACATION WITH PAY AFTER FIVE (5) YEAR'S SERVICE AND FOUR (4) WEEK'S VACATION WITH PAY AFTER TEN (10) YEAR'S SERVICE.

C.) Pay for the vacation period shall be paid in advance and at the time the employee starts his vacation. The vacation pay shall be computed on the existing hourly rate at the time of the employee's vacation.

D.) Thirteen hundred fifty (1350) working hours in the employ of the Employer at the conclusion of a twelve (12) month period shall constitute a year's service and qualify the employee for full vacation pay. If less than thirteen hundred fifty (1350) hours are worked, Section "H" below shall apply.

E.) Vacations must be taken within twelve (12) months next following the date upon which the employee becomes eligible thereto, but shall not be cumulative.

F.) The Employer shall notify each employee by posted announcement ninety (90) days prior to a proposed plant shutdown for vacation.

G.) Where on of the paid holidays (as provided elsewhere in this Agreement) occurs within an employee's vacation period, the employee shall receive holiday pay as provided for in addition to that employee's vacation pay.

H.) Where an employee, eligible for vacation, is laid off because of a curtailment of work or quits, he shall be paid pro rata for that fraction of thirteen hundred fifty (1350) hours, which has accumulated to his credit. Two hundred forty (240) hours shall be the required minimum for a pro rata basis. Such proration shall be based on full years of service at the time of layoff or quit. (paragraph "B" above) Proration of vacation shall not apply unless the employee has completed the first year of service with the Employer.

I.) Vacation shall not take place during the first six months of employment. Accrual shall double during the second six months of the first year of employment.

SECTION 9. JURY DUTY

Upon completion of six (6) months continuous service when an employee is called for jury duty, said employee shall be reimbursed for the difference paid to the employee for serving on jury duty and the amount shall be equal to the basic scheduled work hours for the period involved times the employee's hourly rate. Such pay to be limited to fifteen (15) days each contract year. Days not used in one contract year shall be available in the next contract year to a maximum of forty-five (45) days.

SECTION 10. FUNERAL LEAVE

A. Upon completion of the probationary period an employee shall be entitled to three (3) days with pay for purposes of attending the funeral for the immediate family, with the last day being the day of the funeral. The immediate family is spouse, parents and/or legal guardians, sister, brother, children, grandparents, mother-in-law, and father-in-law.

Two (2) additional days, the two (2) days after the funeral, without pay will be granted for a funeral outside the State.

B. Should there be no funeral or the employee is unable to attend because of the distance or the cost of travel, then the employee shall be entitled to one (1) day of Bereavement Leave with pay.

C. The Employer may require reasonable proof of death and/or relation.

SECTION 11. PENSION

THE IRA PENSION PLAN INSTITUTED EFFECTIVE MAY 1, 1975 SHALL BE CONTINUED FOR THE DURATION OF THIS AGREEMENT. THE EMPLOYER CONTRIBUTION EFFECTIVE APRIL 30 1991 WILL BE TWENTY-FIVE (\$0.25) PER HOUR.

IN ADDITION TO THE ABOVE AND EFFECTIVE MAY 1, 1997, THE EMPLOYER WILL MATCH UP TO THIRTY CENTS (\$0.30) PER HOUR CONTRIBUTION MADE BY AN INDIVIDUAL EMPLOYEE TO THE IRA ACCOUNT PROVIDED THAT SUCH OTHER CONTRIBUTION IS MADE THROUGH PAYROLL DEDUCTION.

SECTION 12. HEALTH AND WELFARE

Upon completion of the probationary period or in accordance with the Plan, whichever is greater, the Employer shall provide and pay for the Kaiser "L" Health and Welfare Program or its equivalent for the employees.

The above Kaiser "L" Health and Welfare Program will be provided to dependents and spouses at the Employer's expense provided the employee has been employed for one (1) year.

Dental coverage for all employees shall be at 80/20 percent of cost.

The dental coverage will be provided to both dependents and/or spouses at the Employer's expense provided the employee has been employed for one (1) year.

Any increase in the premium over the rates in effect as of April 30, 1991 for Kaiser "L" and the Dental Plan shall be borne by the Employer. However, employees shall be required to contribute Twenty Dollars (\$20.00) per month on a payroll deduction basis effective May 1, 1991. Effective May 1, 1993, the employees contribution shall be increased to Twenty-five Dollars (\$25.00) per month.

SECTION 13. LIFE INSURANCE

Upon completion of the probationary period the Employer shall provide a life insurance policy, including AD&D, in the amount of \$10,000.00 on the life of each employee, who shall designate the beneficiary.

SECTION 14. LEAVE OF ABSENCE

A. Upon completion of the probationary period employees shall be eligible to request leave of absence as may be provided for in this Section 14.

B. The employee may request one (1) day per quarter of unpaid time off for personal use. During the four (4) quarters per contract year, one (1) of the four (4) days shall be granted provided the employee gives the Employer twenty-four (24) hours advance notice prior to taking time off. No more than ten percent (10%) of the employees will take their day off at any one time. Three (3) of the four (4) days shall be by mutual agreement between the Employer and the employee. The granting of such requests will be by seniority.

C. In cases where the employee has a prolonged illness or injury, a leave of absence of up to six (6) months will be granted. Requests for a leave of absence for other than the foregoing may be granted by the Employer.

Employees off work for over thirty (30) days due to a leave of absence or extended illness or injury shall not suffer a loss of seniority except as may be provided elsewhere; however, employees shall not accrue any benefits during such period.

D. In all cases where leaves of absence are granted by the Employer, the Union shall be notified in writing of the effective date and the termination date of the leave. Any Union member who does not return or overstays the leave will be considered to have quit his employment, and if rehired, shall be considered a new employee. Timely extensions may be requested by the employee.

SECTION 15. SAFETY

A. It is hereby agreed that the Employer, the Union and the employees recognize the importance of maintaining safety provisions for the protection of the health, life and limb of all employees. Adequate safety and protective devices shall be supplied workmen by the Employer on all hazardous work in accordance with the safety rules of the Industrial Accident Commission, and the Employer shall make every effort to improve conditions when called to his attention. Employees shall wear and use safety devices specified by the Employer. The Employer agrees that such safety equipment shall be maintained in good shape and in accessible positions. The Union shop steward and the Leadman shall help the Employer enforce safety and cleanliness about the shop at all times.

The Employer shall hold the Union harmless for any and all claims, demands, suits or other action that may arise out of this Section.

B. Adequate facilities shall be provided by the Employer for hanging employees' clothing and also adequate washstands and toilets, Precautions to secure the health and safety of employees shall, as far as practical, be at all times taken by the Employer, including a supply of "First-aid Cabinets" at convenient locations in the plant.

C. The Employer will furnish all such necessary tools and equipment to employees as may be required or necessary to perform the work in accord with the Employer's specifications. Suitable rain protective equipment is to be furnished by the Employer to the employees required to work out of doors in inclement weather. When tools and equipment are issued and signed for, the employees will be held responsible for their return in good condition, reasonable wear and tear excepted.

SECTION 16. TRAVEL

Where men are sent on jobs away from the shop or other regular place of employment where they are regularly employed, they shall receive first-class board and lodging and traveling time at straight time to and from such job. If employees travel on overtime days or are required to work overtime, they shall be paid travel at rates specified in this Agreement. Not more than eight (8) hours' pay for travel time in any one (1) day of twenty-four (24) hours shall be paid. The Employer shall provide covered transportation to such employee or pay the regular fare both ways for employees while traveling.

SECTION 17. TERMINATION

The Employer shall give each employee three (3) days' notice on a layoff for any reason, or three (3) days' pay in lieu thereof, except in an emergency which is beyond the control of the Employer.

SECTION 18. GRIEVANCE PROCEDURE

A. Should differences arise between the Employer and the Union as to the meaning and application or the observance and performance by either party of any provisions of this Agreement, or as to whether the wage or working conditions of any individual employee or group of employees in the unit is not in accordance with the wage rate or conditions that should apply to him or them as noted in this Agreement, the following shall be the procedure for the adjustment and settlement thereof:

Step 1. The employee and/or the shop steward shall endeavor to adjust such dispute or grievance with the Employer's representative who has initial responsibility for the matter at hand.

Step 2. If it is not settled, it shall be presented in writing to the management representative within seventy-two (72) hours of the occurrence. The management representative shall respond in writing within seventy-two (72) hours of receipt of the grievance.

Step 3. If it is not thus settled, then within seven (7) days the Business Representative and/or the shop steward and/or the employee shall meet with the management representative and/or labor relations representative and endeavor to adjust such dispute or grievance. An International Representative of the IBEW may be present at this Step in the Grievance Procedure only to assist the Local Union.

Step 4. If such meeting is unable to resolve the issue, then the grieving party may request a Board of Adjustment provided such request is presented within seven (7) days of such meeting. The Board of Adjustment shall consist of two (2) representatives selected by the Union and two (2) representatives selected by the Employer. The Board shall proceed to hear the matter in question within fourteen (14) days, each party being permitted to produce such evidence as may be relevant.

The Board shall have no power to add to, subtract from, or modify any of the terms and conditions of this Agreement. A decision by a majority of the Board shall be final and binding upon the parties.

Step 5. If the Board is unable to resolve the issue, then the grieving party may request arbitration, provided such request is presented in writing within seven (7) days of the meeting of the Board. If the parties are unable to agree upon a neutral arbitrator, then the Federal Mediation and Conciliation Service shall be requested to submit a panel of seven (7) arbitrators. Each side shall have the option to reject one (1) complete panel. The parties shall alternately strike from said list one (1) name after determining the first strike by lot, and the remaining named arbitrator shall promptly conduct a hearing on the grievance.

B. The neutral arbitrator shall have no power to add to, subtract from, or modify any of the terms and conditions of this Agreement. The decision of the neutral arbitrator shall be final and binding upon the parties.

C. The Union and the Employer shall equally share the expense of the arbitration. However, each party shall bear its own expense of representation and witnesses. This latter provision shall also apply to Step 4 in the grievance procedure.

D. Should the time limits above be passed by either party, the grievance shall be forfeited to the other. However, the above time limits may be extended by mutual agreement.

SECTION 19. NO STRIKE - NO LOCKOUT

The Union agrees not to engage in any strikes, slowdowns or stoppages of work during the term of this Agreement.

Any action by the employees leaving jobs for their own protection in cases of legally declared strike by some other union directly working on the job, if such strike is sanctioned and approved by the labor body or council having jurisdiction, shall not constitute a violation of this Agreement.

The Employer agrees not to engage in any lockout during the term of this Agreement.

SECTION 20. NO DISCRIMINATION

It is the continuing policy of the Union and the Employer that the provisions of this Agreement shall be applied to all employees without respect to age, sex, race, religion, color, national origin or marital status.

SECTION 21. SAVINGS CLAUSE

Any provision of this Agreement adjudged to be unlawful by a court of competent jurisdiction shall be treated for all purposes as null and void, but all other provisions of this Agreement shall continue to be in full force and effect except as provided herein.

SECTION 22. TERM OF AGREEMENT

A. This Agreement shall take effect as of MAY 1, 1997 AND SHALL REMAIN IN EFFECT UNTIL APRIL 30, 1998. It shall continue in effect from year to year thereafter from May 1st to April 30th of each year, unless changed or terminated in the way later provided herein.

Either party desiring to change or terminate this Agreement must notify the other in writing at least sixty (60) days prior to the anniversary date of the present contract. When notice for changes is given, the nature of the changes desired must be specified in the notice and until a satisfactory conclusion is reached in the matter of such changes, the original provisions shall remain in full force and effect. The negotiation of any proposed amendments by either party shall begin within fifteen (15) days after receipt of the written proposed amendments.

B. This Agreement shall be subject to amendment at any time by mutual consent of the parties hereto. Such amendment shall be reduced to writing, stating the effective date of the amendment, to be executed in the same manner as this Agreement, and be approved by the International Office of the Union.

ELECTRICAL WORKERS UNION,
LOCAL 2131

HOSPITAL SYSTEMS, INC.

/s/ ROGER LANGLOIS

BY _____
ROGER LANGLOIS
BUSINESS MANAGER,
IBEW, LOCAL 2131

/s/ DAVID MILLER

BY _____
DAVID MILLER,
PRESIDENT

/s/ VINH PHUN

BY _____
VINH PHUN . .
COMMITTEEMAN

/s/ OSCAR RONQUILLO

BY _____
OSCAR RONQUILLO
COMMITTEEMAN

DATE: September 4, 1997

SCHEDULE "A"

PROGRESSIONS - CLASSIFICATIONS - WAGES

The provisions called for in this Schedule "A" shall become part of the Agreement made May 1, 1997 between Hospital Systems, Inc. and Local 2131, International Brotherhood of Electrical Workers.

Nothing in this Schedule shall serve to reduce any current wage rates of individual employees.

A. PROGRESSIONS

1. EMPLOYEES HIRED AFTER MAY 1, 1997 SHALL PROGRESS FROM STARTING RATE OF \$7.50 PER HOUR [OR MARKET RATE] AND SHALL PROGRESS TO THE TOP RATE IN FIVE 24 MONTH STEPS. TO COMPUTE THE RAISE FROM EACH STEP THE DIFFERENCE BETWEEN THE EMPLOYEE'S CURRENT RATE AND THE TOP RATE SHALL BE DIVIDED BY THE NUMBER OF STEPS LEFT IN THE PROGRESSION.

2. The following are the progression steps for employees hired before May 1, 1997:

- Step 1 - First 13 calendar weeks of employment
- Step 2 - Second 13 calendar weeks of employment
- Step 3 - Third 13 calendar weeks of employment
- Step 4 - Fourth 13 calendar weeks of employment
- Step 5 - Fifth 13 calendar weeks of employment
- Step 6 - Sixth 13 calendar weeks of employment
- Step 7 - Seventh 13 calendar weeks of employment
- Step 8 - Thereafter

3. An employee with less than thirty-nine (39) weeks comparable experience in the last two (2) years shall start at Step 1.

4. An employee with over thirty-nine (39) weeks comparable experience in the last two (2) years shall start at Step 4.

5. For the purpose of this Section only, a calendar week starts the first Wednesday an employee works within a given job classification.

6. Previous Company experience may be credited in full.

B. CLASSIFICATIONS AND WAGES

The following are job classifications and minimum wage rates:

1. LINE ASSEMBLERS

	6/1/97

STEP 1	\$9.10
STEP 2	\$9.28
STEP 3	\$9.74
STEP 4	\$9.91
STEP 5	\$10.46
STEP 6	\$10.76
STEP 7	\$11.38
STEP 8	\$11.72

2. SPECIAL PRODUCTION WORKERS

	6/1/97

STEP 1	\$9.34
STEP 2	\$9.52
STEP 3	\$9.97
STEP 4	\$10.15
STEP 5	\$10.69
STEP 6	\$11.01
STEP 7	\$11.65
STEP 8	\$11.97

3. TRUCK DRIVER/YARDMAN

	6/1/97

STEP 1	\$9.10
STEP 2	\$9.28
STEP 3	\$9.74
STEP 4	\$9.91
STEP 5	\$10.46
STEP 6	\$10.76
STEP 7	\$11.38
STEP 8	\$11.72

5. RECEIVING AND INVENTORY CLERK

	6/1/97

STEP 1	\$9.10
STEP 2	\$9.28
STEP 3	\$9.74
STEP 4	\$9.91
STEP 5	\$10.46
STEP 6	\$10.76
STEP 7	\$11.38
STEP 8	\$11.72

6. GENERAL LABORER

	6/1/97

STEP 1	\$5.91
STEP 2	\$6.06
STEP 3	\$6.22
STEP 4	\$6.37
STEP 5	\$6.52
STEP 6	\$6.68
STEP 7	\$6.83
STEP 8	\$6.98

6. MILLING MACHINE, PUNCH PRESS & MANIFOLD

Employees assigned to operate the Milling Machine, Punch Press or Manifold shall receive twenty-five cents (\$.25) per hour above their regular hourly rate for all hours worked while operating the Milling Machine, Punch Press or Manifold.

7. LEADMAN

There may be a Leadman in each classification and the wages shall be sixty-two cents (\$.62) per hour over Step 8 in the classification directed.

SCHEDULE "B"

JOB DESCRIPTIONS

A. LINE ASSEMBLERS

Duties shall consist of the assembling of all products manufactured by the Company such as critical care units, isolated power units, mobile units, nurses stations, etc. Typical parts to be assembled are frames, back pans, convenience mounting straps, end caps, receptacles, outlets, switches, transformers, circuit breakers and supports, nurse call and code one equipment, elapsed time indicators, line isolation monitors, dimmers, timers, sub-face plates, fascias, plastic laminated panels and wiring therefore. Sub-assemblies shall be air grills, panel frames, door assemblies, ground jacks, group plugs, grounding jack assemblies, circuit break assemblies, mobile unit assemblies, etc. Included in the assembly work will be the measuring and cutting of aluminum extrusions, plastic laminated panels, plastic trims and steel supports. Packaging, shipping and receiving. The above is not all inclusive, but lists typical duties to be performed and all like assignments shall be performed by Line Assemblers.

B. SPECIAL PRODUCTION WORKERS

Duties shall consist of operating punch press, drill press, welding equipment, brazing equipment and other heavy duty power operated equipment. The assemblies to be handled are gas failure alarms, remote hazard indicators, ground fault indicators, nurses station sub-assemblies and connections, manifoldng or medical gas outlets, and welding of aluminum sub-assemblies. The above is not all inclusive, but lists typical duties to be performed and all like assignments shall be performed by Special Production Workers.

Special Production Workers may be assigned duties in the Line Assemblers category and shall perform these duties without any reduction in pay. Line Assemblers may be requested to perform duties in the Special Production Workers category and shall be paid at the Special Production Workers' scale while performing those duties only.

C. TRUCK DRIVER/YARDMAN

Duties shall consist of driving a truck, or any other type of vehicle covered by a Class 3 California Drivers License, for the purpose of delivery and pick-up of materials, stocking and withdrawing such materials, and daily yard and shop cleanup and other related duties assigned by the Production Manager.

D. RECEIVING & INVENTORY CLERK

Duties shall consist of performing any one or more of the following duties: receiving and checking incoming shipments of materials, stacking materials and issuing materials to the factory, keeping of stock in order, operating power and/or hand lift trucks and driving the company truck for local pickup and delivery of material.

Receiving duties consists of verifying correctness of shipments against bills of lading, invoices or other records; checking for shortages and rejecting damaged goods; routing merchandise and materials to proper departments; and maintaining necessary records and files.

The above is not all inclusive, but lists typical duties performed by the Receiving and Inventory Clerk

E. GENERAL LABORER

Duties shall consists of performing any one or more of the following duties; removing turnings and oil from machines, wash and degrease parts, handle material, cleaning, keeps in an orderly condition factory working areas, washrooms, offices and yard. Duties may include sweeping, mopping, polishing, window washing and other housekeeping duties that may be assigned. The above is not all inclusive, but lists typical duties to be performed by the General Laborer.

F. LEADMAN

Duties are to supervise and instruct, lead and guide; allocate work as directed by the management's representative; as well as perform necessary production work in all job descriptions; enforce safety rules, check working conditions and quality control.

All classifications shall be full or part-time as required.

SIDE LETTER

Between

HOSPITAL SYSTEMS, INC.

and

ELECTRICAL WORKERS UNION, LOCAL 2131

It is agreed and understood by the parties that the following shall only apply to employees who have completed the probationary period as of April 30, 1991.:

After four (4) continuous years of service, an employee shall be entitled to ten cents (\$.10) above the rate specified in #1, #2 or #3 in Schedule "A".

After eight (8) continuous years of service, an employee shall be entitled to ten cents (\$.10) above his rate.

After ten (10) continuous years of service, an employee shall be entitled to an additional ten cents (\$.10) above his rate.

IBEW, LOCAL 2131

HOSPITAL SYSTEMS, INC.

/s/ ROGER LANGLOIS

/s/ DAVID MILLER

BY _____
ROGER LANGLOIS,
BUSINESS MANAGER,
IBEW, LOCAL 2131

BY _____
DAVID MILLER,
PRESIDENT

/s/ VINH PHUN

BY _____
VINH PHUN.
COMMITTEEMAN

/s/ OSCAR RONQUILLO

BY _____
OSCAR RONQUILLO
COMMITTEEMAN

DATE: September 4, 1997

The policies for full-time hourly employees of the B & F Medical Division of Allied Healthcare, Inc. are based on the belief that a body of qualified employees working in harmony with each other, and with the employer, to provide the best product possible to the customer.

B & F realizes that its economic strength and growth depend directly upon the contributions made by each person within the organization.

It is further recognized that the purpose and intent of this policy is to promote harmony and cooperation between the parties as well as to provide a channel through which complaints, if any, by either party can be transmitted to each other and settled.

Finally, this policy manual describes what the employees can expect from the employer in benefits, and what the employer can expect from each employee in return.

- 1.) Maintain reasonable hours of work with safe and desirable working conditions.
- 2.) Be an equal opportunity employer.
- 3.) Provide continuous employment consistent with business conditions.
- 4.) Place employees in the kind of work best suited for the Company objective.
- 5.) Encourage and help each individual to progress in the Company's organization.
- 6.) Accord to each employee the right to discuss freely with all levels of management matters concerning his or her welfare and the Company's interest.

ARTICLE II: EQUAL EMPLOYMENT OPPORTUNITIES

It is the policy of the employer that there shall be no discrimination against any employee in any terms and conditions of employment because of such employee's race, creed, color, age, sex, national origin, or Vietnam or disabled veteran status, or handicap as provided by law. The company will also comply with the American Disabilities Act.

Further, should an employee have a complaint and said employee avails himself/herself of the complaint procedure, the employee will in no way be discriminated against by the employer.

ARTICLE III: GENERAL EMPLOYMENT POLICY - OFF TO A GOOD START

When you get a new job, you know what points are important to you . . . a good Company to work for, good people to work with, good working conditions, and good opportunities.

At B & F Medical Products, Inc. we hope you will find what you look for in a job. The Company is just as much interested as you are in seeing that you get off to a good start. That's why the personnel department talks to you when you apply . . . to tell you what kind of job it is, and to find out if your interests fit in.

GETTING YOUR BEARINGS

As you meet your supervisor and the other people in your department, they will explain things to you. As they do, you will begin to see the close tie-in between the different parts of our organization. The department where you work is a part of the plant; the plant is a part of B & F Medical Products. All in all, we cover a lot of territory.

ARTICLE IV: SERVICE FACILITIES

Parking - The plant has free parking space as near the building as possible. Please do observe all the customary precautions and courtesies of parking. The parking lots are not speedways. They are for your convenience. The Company cannot be responsible for your car or its contents. All of us can insure our common safety and satisfaction by the routine observance of "Parking Lot Etiquette".

ARTICLE V: PROBATIONARY PERIOD

All new employees are automatically on a thirty (30) day probationary period. During this important period the employee's ability, work performance, attitude, care of company equipment, safety practices, attendance and dependability will be closely evaluated by your supervisor. Only after successful completion of the thirty (30) day probationary period is an employee recognized as a part-time or full-time employee. If for any reason, prior to completion of the probationary period, it is determined that an employee is not suited or satisfactory for their job, their employment will be terminated. However, prior to their termination, every effort will be made to work with the new employee to train them in their job and to counsel them concerning any problems or deficiencies.

At the discretion of management, a probationary period may be extended if circumstances warrant such an extension. Such extension will be granted, if warranted by Management.

ARTICLE VI: MANAGEMENT RIGHTS

The management of the business and the direction of the working forces of the Company, which includes all rights customarily reserved to management, including the right to plan, direct and control its operations, hire, discipline, or discharge for just cause, assign, transfer, promote, and maintain efficiency of its employees are vested exclusively with the employer, except to the extent specifically limited by the terms of the Agreement and/or provided that the exercise of such rights will not be used for the purpose of discrimination against any member of the Committee.

ARTICLE VII: RULES AND REGULATIONS

In accordance with the employer's right to discipline or discharge for just cause and maintain the efficiency of its employees, the following guidelines have been set up by the employer. The acts and practices listed on the following page are not all-inclusive, but set forth some major reasons which may without notice subject the employee to disciplinary action, up to and including dismissal at the discretion of the company and in the presence of a Committee Officer.

1. Falsification of personnel records, time cards or other records.
2. Habitual unexcused absenteeism or tardiness.
3. Leaving job or work place during working hours without permission.
4. Insubordination. Refusal to obey orders issued by supervisor or Team Leader or any other member of management.
5. Loitering on company time.
6. Excessive and disruptive loitering on company property after hours.
7. Use of abusive or threatening language to another employee or any employer personnel.
8. Habitual failure to ring time card, ringing time card of another employee, defacing and/or falsifying a time card.
9. Immoral, illegal, or indecent conduct.
10. Violation of safety rules or failure to wear required safety equipment.
11. Reporting to work, or being at work, but in no fit condition, or possession or under the influence of liquor or unauthorized drugs.
12. Sleeping while on work time.
13. Engaging in horse play, running, shouting, throwing articles or any unauthorized demonstration.
14. Eating or smoking in unauthorized areas. Smoking is allowed only in the specified smoking area of the parking lot. Smoking is not permitted in the restrooms or in the plant. Those who desire to chew tobacco, must do so only in areas where smoking is allowed. You must however, refrain from gross/objectable expectorating of tobacco juices especially during times when people are eating.
15. Destroying company property, materials, tools, and equipment.
16. Stealing or damaging company or another employee's property.
17. Tampering with, or misuse of safety or fire fighting equipment or other utility controls, including thermostats.
18. Fighting on company premises.
19. False or malicious statements concerning any fellow employee.
20. Posting or removing written or printed matter of any description without permission.
21. Practicing or contributing to unsanitary or unhealthful conditions. Employees are required to clean-up their own lunch/break trash.
22. Unwarranted interference with production in any manner.
23. Failure to work efficiently and/or meet quality and production standards.
24. Negligence or inefficiency resulting in scrap or inferior work, breaking or wasting any materials or supplies.
25. Unauthorized entry on company property.
26. Wearing of unsafe or improper clothing at work includes jewelry on Injection Molds.
27. Abuse of "break" time allowances.
28. Unauthorized possession of firearms or weapons of any kind on the premises.
29. Sexual Harassment.

SEXUAL HARASSMENT POLICY

ACTS OF SEXUAL HARASSMENT BY EMPLOYEES, SUPERVISORS AND MANAGERS ARE PROHIBITED EMPLOYMENT PRACTICE AND ARE SUBJECT TO SANCTIONS AND CORRECTIVE MEASURES.

Sexual harassment in the workplace is defined as unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a physical nature, when

1. Submission to such conduct is made either explicitly or implicitly, a term or condition of an individual's employment;
2. Submission to or rejection of such conduct by an individual is used as the basis for employment decisions affecting such individuals;
3. Such conduct has the purpose or effect of substantially interfering with a person's work performance or creating an intimidating, hostile or offensive work environment.

Prohibited acts of sexual harassment can take a variety of forms ranging from subtle pressure for sexual activity to physical assault. Examples of the kind of conduct included in the definition of sexual harassment are:

1. Continued or repeated sexually-oriented verbal kidding;
2. Continued or repeated verbal abuse of a sexual nature including graphic commentaries on the person's body; sexually suggestive objects or pictures placed in the work area that may offend the person; sexually degrading words to describe the person; or propositions of a sexual nature;
3. Physical contact such as patting, pinching, or frequent brushing against another's body;
4. Threats or insinuations that the person's employment, wages, promotional opportunities or other conditions of employment may be adversely affected by not submitting to sexual advances

An employee who believes that he or she is the victim of sexual harassment is asked to report the incident immediately to the General Manager or V. P. of Administration. If the employee feels uncomfortable reporting to the persons designated, or if the harassment continues, he or she is asked to contact the committee officers. An impartial investigation will be conducted to determine whether the conduct can appropriately be defined as sexual harassment and what corrective action should be taken.

This process has been established for the employee's benefit to assure him or her that the issue will be dealt with promptly and to the extent possible, in a confidential manner. No employee will be penalized for lodging a complaint for sexual harassment no matter how that issue is resolved, unless it is proven that the employee has purposely and intentionally made false accusations.

ARTICLE VIII: PART-TIME EMPLOYMENT

Employees regularly scheduled to work thirty-five (35) hours a week or less on a regular scheduled basis, are considered part-time employees. Part-time employees do not accumulate seniority for any company benefits, nor will they receive vacation pay. They will be eligible for partial holiday pay equal to their part-time hours. Part-time employees will be laid-off before full-time employees. Seniority and work performance will be the basis for selecting part-time employees bidding on full-time position openings.

ARTICLE IX: TEMPORARY EMPLOYMENT

Employees who are hired to work for stated limited number of months (including summer help) are considered temporary employees. Temporary help will not accumulate seniority for Company benefits, nor will they receive holiday or vacation pay.

ARTICLE X: SENIORITY SERVICE

Seniority is defined as length of continuous employment with the company, from the day the employee begins full-time work. Temporary employees do not accrue seniority.

All seniority will be plant wide in each department. These departments are divided as follows: Injection Molding, Assembly I and II, Warehouse, Quality, Repair, and Janitorial.

An employee begins building seniority the day he/she begins employment at B & F Medical Products, Inc. However, it is not officially credited to the employee until he/she has completed the thirty (30) day probationary period.

The hiring date of each employee shall be used for placement purposes on the seniority list. Said placement on the list shall be used for lay-off and recall on the basis of last on, first off. Recall of employees shall be in inverse order; that is last off, first to be called back. It being understood that should a lay-off take place, and a remaining employee is not able to efficiently perform the available work within a three week period, said employee will be laid-off and an employee who was laid-off, and is able to efficiently perform the available work, will be recalled by seniority.

The Company shall post an updated seniority list upon the execution of this Agreement and provide the Committee with a copy of the same. Thereafter, the Company shall post an updated seniority list and provide the Committee with a copy of the same each six (6) months. In the event an employee disagrees with his/her seniority standing, the employee shall protest the same within three (3) working days after the employer posts the updated seniority list or within three (3) working days of the date from which the employee reasonably should have been aware of the posting of the updated seniority list. Up to one (1) year the company will hold seniority in case of L.O.A. due to accident/sickness.

ARTICLE XI: TERMINATION OF EMPLOYMENT

Termination of employment, and a loss of seniority will occur if an employee:

1. Quits, walks off job (job abandonment).
2. Is discharged for rules violations
3. Fails to report to work after being recalled from lay-off within three (3) days after notice to
return to work is received by certified mail
4. Retires
5. Has been on lay-off for more than one-half their accrued seniority
6. Is fully disabled as defined by Social Security Laws

7. Has three (3) successive scheduled work days of unexcused absences
8. Fails to return from leave of absence in accordance with provisions of "Leave of Absence" Policy.

Final pay checks will be available on the regular designated pay day. It is not the wish of the Company to dismiss an employee without first trying to assist in correcting his/her problem.

ARTICLE XII: ABSENCE AND/OR TARDINESS

Every employee is expected to report to work on time. Absence and/or tardiness seriously interferes with the efficient plant operations, and creates an added burden on fellow employees. All absence is to be reported to the work supervisor, as early as possible, by the employee prior to starting time. The plant phone number is 729-0608 Ext. 215.

The following is the disciplinary procedure for 1.) absences and for 2.) tardiness (tardiness is defined as 30 minutes or less) effective January 1, 1998:

ATTENDANCE PROGRAM (Points System)

In an effort to be fair and equitable to all employees, the following program is implemented. It is the intention of the program to eliminate the potential for favoritism by supervision, inconsistency in the application of discipline for attendance infractions, and abuse by employees who attempt to manipulate the system.

At the beginning of the calendar year, all employees will have zero (0) points. The accumulation of points is not a good thing. All employees should strive to earn no points throughout the year.

Note:

1. Sick Days are exempt from this program.
2. Employees will not receive points for time taken under the Family Leave Policy.
3. Vacation is also independent of this program. No points will be given for any vacation days used by an employee.
4. Each employee will have 4 Doctor's Slips per year exempted from being pointed.

Earning of Points:

Points are earned as follows:

Late, Tardy, Leave Early, or any other manner in which less than two hours of scheduled work time is missed 1/2 point.

Note: If an employee schedules a doctor's appointment for within 1 1/2 hours of the start or end of his/her assigned shift, and if he/she returns to work with a time stamped document from the doctor's office indicating that he/she has returned to work at the earliest possible time from that appointment, he/she will not receive a point penalty.

Absent (time out of work in excess of two hours, during scheduled work time) 1 point per occurrence.

Absences of two (2) consecutive days or less are considered one occurrence. In the event that an employee is absent in excess of two (2) consecutive work days, the employee must provide to the company a Return to Work Slip, signed by a physician from a physician's office. The doctor's slip will be used to confirm illness and if provided will document the illness as one (1) occurrence. See Note #4 above for the exception to this rule. Failure to do so will result in each day off receiving 1 point.

The rules for no call in remain in effect. However, if an employee is likely to remain off work for an extended period of time due to illness, that employee need not maintain daily contact if a document from a physician is provided to a company official estimating the length of the illness. Contact with a company official must be made every three work days in all other cases or the employee may find that he/she is in violation of the No Call In Rule and risks termination for Job Abandonment.

No Call In Rule - If an employee is absent from work for three consecutive days and does not make contact with a company official unless as stipulated above, that employee will be considered to have abandoned his/her job and is terminated.

Disciplinary Actions:

The accumulation of three (3) points requires a verbal warning to the employee.

The accumulation of six (6) points requires a written warning to the employee. Employee will be advised of point accumulation by Management.

The accumulation of nine (9) points indicates termination is required.

ARTICLE XIII: STRIKES AND LOCKOUT

The employer agrees not to cause, permit, or engage in any lockout of its employees during the term of the Agreement. Likewise, the employees agree that neither individually or collectively, will they, during the term of the Agreement, cause, permit, or take part in any strike, picketing, sit-down, stand-in, slow-down, or other curtailment or restriction of productions, or interference with work in or about the Company plant or premises.

ARTICLE XIV: GRIEVANCE PROCEDURE - (OPEN DOOR POLICY)

Section One: Should any differences, disputes, or complaints arise over the interpretation or application of the Agreement, the grievance procedure shall be the method described below of the parties to settle the differences, disputes, or complaints promptly through the following steps. Grievances must be taken up promptly, and no grievances shall be considered or discussed which are presented later than three (3) working days after the cause of such grievance has occurred, or within three (3) working days of the day the grievant reasonably should have been aware of the occurrence.

Step 1 - Between the aggrieved employee and his/her immediate supervisor, the immediate supervisor will answer the grievance before the conclusion of the second (2nd) working day after the presentation of the complaint.

Step 2 - If the answer of the immediate supervisor is not satisfactory to the grievant, then, the grievant must, before the conclusion of the second (2nd) work day after receipt of the Step 1 answer, reduce the grievance to writing and present it to an officer of the Committee. An officer of the Committee and the grievant shall, before the conclusion of the second (2nd) work day, after receipt of the written grievance, discuss the grievance with the designated Company representative with the resolution of the grievance as the contemplated goal. The Company representative shall give an answer to the officer of the Committee regarding disposition of the grievance before the conclusion of the second (2) work day after the discussion.

Step 3 - If the answer of the Company is not satisfactory to the Committee, then, the Committee must, within one (1) week after receipt of the Step 2 answer, proceed to Step 3 of the grievance procedure. If the grievance is not satisfactorily adjusted in Step 2, the grievance shall be presented and discussed at a meeting with the Committee, the appropriate Company representative, and the grievant. Said meeting shall be held at a mutually agreed time but within one (1) week after notice is given to the Company that a meeting is desired.

Step 4 - If the grievance is not satisfactorily adjusted in Step 3, either party may, within thirty (30) days, in writing, request arbitration, and the other shall be obligated to proceed with arbitration in the manner hereinafter provided. The Executive Board of the Committee shall have the exclusive right to determine whether or not the employee's grievance shall be submitted to arbitration by the Committee. The parties shall forthwith attempt to agree upon an impartial arbitrator. If they cannot so agree within five (5) working days of the request for arbitration, they may within thirty (30) days, thereafter, request final and binding arbitration from the Toledo Labor-Management Citizens Committee, which shall be requested to submit a panel of seven (7) arbitrators. The expense of the arbitrator except the parties' own expenses, shall be born equally by the Committee and the Company.

Section Two: The Company or Committee may agree to extend the time limits set forth in this procedure by written request of the other party.

Section Three: The arbitrator shall have authority and jurisdiction to determine the propriety of the interpretation and/or application of the Agreement with respect to the grievance in question, but shall not have the power to add to, subtract from, or modify the terms contained herein.

Section Four: Any agreement reached between the Committee and the Company under the grievance procedure by their authorized representatives, and any decision of the arbitrator under Step 4, shall be final and binding upon the Company, the Committee, and the employee or employees involved.

ARTICLE XV: EMPLOYEE LEAVE OF ABSENCE/FAMILY MEDICAL LEAVE (F.M.L.)

"B&F FAMILY AND MEDICAL LEAVE POLICY"

Beginning August 5, 1993 employees who have worked at least one full year with a minimum of 1250 work hours in the past twelve months may apply for up to twelve (12) weeks of unpaid leave per calendar year after a childbirth or adoption, or to care for a seriously ill child, spouse or parent (but not "parent-in-law"), or for an employee's own serious health condition (if husband and wife both work at B & F a total of 12 weeks aggregate leave time applies for leave taken for a childbirth or adoption, or to care for a seriously ill parent.

Thirty (30) days advance written notice is required for foreseeable leaves necessitated by birth, adoption, or planned medical treatment. Leave for serious illness will require certification by a licensed health care provider, and a second opinion may be required (to be paid for by B & F). Intermittent leaves for medical treatment must include expected dates of treatment and planned duration. Certification by a licensed health care provider of fitness for duty is required whenever returning to work after an employee's own serious health condition.

B & F Medical guarantees reinstatement to the same or equivalent job upon return from F.M.L., but requires that employees use all accrued vacation and/or paid sick time against their annual 12-week entitlement period.

All covered medical/health coverage will be continued for the employee while on F.M.L. as if the employee were continuously employed throughout the leave period. Written arrangements with B & F for the payment of any medical or optional insurance premiums that are the responsibility of the employee must be made at the time of applying for F.M.L. (if possible). Any premiums paid by B & F that are properly the responsibility of the employee must be repaid to B & F, even if the employee never returns to work, unless B & F is otherwise notified in writing that the employee will not return to work and to discontinue making such payments on their behalf.

F.M.L. applications must be signed by both the employee (or representative) and B & F management. It is the responsibility of the EMPLOYEE to return to work within the authorized F.M.L. time period and to notify and update B & F concerning the employee's physical condition or other changes of any kind.

Upon written application and for good cause only, the employer will consider a request for leave of absence, without pay or benefits, not to exceed F.M.L. limits. Leaves may be renewed at the discretion of the employer. If any employee fails to return to work at the expiration of the leave, or if it is found that an employee was granted a leave under false pretenses, he/she will automatically be terminated.

No leave of absence request shall be honored for the purpose of enabling an employee to seek or accept work with another employer.

ARTICLE XVI: PERSONNEL RECORDS

The office maintains an accurate and confidential master record of every employee. Maintaining these files with up-to-date information is very important, as it provides the Company with addresses to reach employees in emergencies, and send mail with data for payroll deductions, and information required for insurance and other benefits.

All employees must notify the office promptly of any changes regarding:

1. Address or telephone number
2. Marital status
3. Number of dependents for withholding tax purposes
4. Person to notify in case of emergency

Personnel records are to be kept intact for the entire length of employment of each individual employee. However, it is agreed that for the purpose of discipline/dismissal, records or file information of the past four (4) years only will be used.

ARTICLE XVII: WORK BREAKS

A work break of fifteen (15) minutes will be given all employees approximately two (2) hours into their work day. A thirty (30) minute un-paid lunch break approximately four (4) hours into their work day, and an additional work break of fifteen (15) minutes approximately two (2) hours following the lunch break will be given. Following eight (8) hours of scheduled work/overtime, a five (5) minute break will be allowed.

These break times are the only times when employees are to be away from their work areas. Emergency lavatory visits are permissible and not to be abused. Other than emergencies, the employee will be relieved when a Team Leader or Supervisor arranges it.

Clean-up time, if required by supervisory personnel, shall be performed by employees to protect parts, etc. Otherwise, no personal clean-up time will be permitted. Employees are to work up to the buzzer indicating quitting time, or until relieved by next shift employee. If the next shift employee does not relieve shortly, the quitting employee is to notify the supervisor prior to their leaving.

ARTICLE XVIII: ACCIDENTS - HEALTH - SAFETY

Accidents can be prevented in most cases, by use of good judgment - think and plan for safety. The health and safety of yourself, and your fellow workers should be of the utmost importance to you, as it is to your employer. Therefore, specific Safety Rules and Regulations will be posted in the plant. Employees disregarding said rules, or found to be in violation, will be subject to discipline, up to and including dismissal.

Even though you and the employer are covered by State Workman's Compensation Insurance, you must report an accident to your supervisor as soon after the accident as possible, and an Accident Report Form must be completed, followed by a Claim to the state where requested and justified.

ARTICLE XIX: DRESS CODE AND PERSONAL HYGIENE

New Dress Code Text

We at B&F (the Disposable Products Division of Allied Healthcare Products) manufacture medical devices. These devices are regulated by the FDA and other agencies. We must adhere to the rules and regulations of these agencies. One of the main areas of review and regulation is cleanliness. This relates to the dress and cleanliness of our employees as well as the cleanliness and order of the manufacturing areas.

The Dress Codes is as follows:

- 1.) All production employees must wear a hair net or surgical cap (provided by the company) and sturdy, flat, fully enclosed shoes.
- 2.) Safety glasses AND hearing protection (EARPLUGS) are required in all plant areas.
- 3.) Shirts must be of full length (no bare midriffs). Sleeveless shirts are permitted, if the shoulder width of the shirt body is at least 3" wide (tank tops, undershirts, spaghetti straps or similar attire is not permitted.)
- 4.) Clothing may not have holes or tears or be made of sheddable material.
- 5.) Shorts or skirts can not have an inseam of less than 6" or be shorter than 5" above the knee unless worn with opaque tights.
- 6.) Leggings or spandex shorts are acceptable if a hip covering top garment is also worn.
- 7.) Loose fitting clothing must be fastened at the wrist in order to avoid employee injury.

If clothing is deemed inappropriate by company management, the offending employee will be required to punch out, change and return to work.

Also, per FDA and Company regulations, hands must be washed following lavatory visits and after eating, prior to returning to the production area. Eating at the work area is strictly forbidden. Smoking is only allowed in the designated area. Only water in unbreakable, spillproof container is allowed at the work station.

ARTICLE XX: WORK HOURS AND THE TIME CLOCK

The pay week starts on Sunday morning each week, and goes through Saturday night. The work day starts at 7:00 am to 3:30 pm (first shift), 3:30 pm to 12 midnight (second shift), and 11:00 pm to 7:30 am (third shift).

Be sure to punch your time card in and out on the time clock at these times, as it is your official work record. There is a 3 minute grace period for punching in. Remember, it is against regulations to punch the time card for anyone but yourself.

Overtime shall be paid on a daily basis for all hours in excess of eight (8) hours worked (excluding vacation or sick pay comp.). Vacation and sick pay continue to be used towards the forty (40) hours accumulation for overtime pay per week, or thirty-two (32) hours during a holiday week. Overtime shall be paid for at the rate of time and a half (1-1/2) the straight time hourly rate. At the discretion of the Company, employees will be required to work the first two (2) mandatory eight (8) hour Saturdays posted per month. If the employee's vacation is posted/scheduled/approved prior to the mandatory overtime notice being posted, the employee is not required to work that Saturday. They would, however, be required to work any other mandatory Saturday during that month. On an excused absence (illness or immediate family wedding/or with proof of wedding participation) during a mandatory Saturday, the employee would be required to make-up that Saturday on a subsequent Saturday (if the plant is working) per calendar month. In the case of an immediate family wedding or wedding participation, the employee must fill out a Vacation Request Form prior to that Saturday so that management can plan its operations. There shall be no pyramiding of overtime or premium pay.

When the need for overtime arises, voluntary overtime shall be offered to employees in their department first on the basis of their seniority in all cases, provided the employee is capable of performing the jobs, along with sufficient supervisory personnel as required by Management. Voluntary overtime is to be treated seriously - if you find that you cannot make it, notify your supervisor as soon as possible. If not enough production employees volunteer or are available, Management reserves the right to fill in jobs/machines as is deemed sufficient with supervisory personnel on a per shift basis.

ARTICLE XXI: PAY DAY

Pay day is usually Friday of each week, unless a holiday during the week delays the preparation of the payroll. Your weekly paycheck is delivered to you at your regular work station. If you are not at work when a paycheck is due, it can be picked up during work hours at the office. One week's pay is held back so your first paycheck as a new employee will come to you about two weeks after you begin work. The Payroll Department needs this time to set up your account and the necessary records.

ARTICLE XXII: PAID HOLIDAYS

Eligible employees who have completed three (3) months service, and are on the active payroll the day prior to the holiday, and who have worked their last regular scheduled work day before, and their next scheduled work day after such holiday shall receive holiday pay pro-rated per hours worked up

to maximum of eight (8) hours regular pay (a maximum of 30 minutes tardy allowed without losing holiday pay). These holidays are as follows:

New Year's Day	Memorial Day
Independence Day	Labor Day
Thanksgiving Day	Day after Thanksgiving
Christmas Eve	Christmas Day
*Floating Holiday	

Note - Half (1/2) day for Good Friday off without pay will be allowed.

Floating Holiday

Effective July 1, 1997, every Union employee will receive one new paid holiday. It is a Floating Holiday. It may be taken when the employee would like a paid day off during a regularly scheduled work day. There is only one floating holiday per year. It must be taken during the calendar year or employee will receive eight hours straight pay (holiday) at the end of the calendar year if not used. There is no carryover of this day.

RESTRICTIONS

The Floating Holiday cannot be taken in conjunction with vacation, leave of absence or another paid holiday. To be paid for a Floating Holiday, the employee must work the full scheduled shift of the day preceding and the day following the Floating Holiday. Floating Holidays may not be taken during inventory. Floating Holidays may not be taken on the last work day of the month. New Years Eve can, however, be a Floating Holiday for up to one half each department employees per shift on a first reserved, first allowed basis.

NOTIFICATION

In order to take the Floating Holiday, the employee must notify his/her supervisor in writing 48 hours in advance of the day requested. Requests will be automatically honored if the request does not violate any of the restrictions listed above.

ARTICLE XXIII: BUILDING YOUR RETIREMENT

The Company Pension Plan, which is qualified under Internal Revenue Service guidelines, helps you to build a lifetime retirement income. Each employee is eligible to join the 401(k) Profit Sharing Plan on the anniversary date of the plan, which follows one (1) year of employment (1000 hours of service). The employee must be at least 21 years of age. The company will contribute a profit sharing amount equal to 3.5% of the employee's gross pay on an annual basis. In addition, the employee can contribute on a pre-tax basis to the plan. The company will match the employee's contributions up to an additional 3%. A report summarizing the employee's assets in the plan will be made available on a quarterly basis.

ARTICLE XXIV: VACATION TIME OFF WITH PAY

The vacation year for employees covered hereby shall be twelve (12) month period, from January 1 to December 31 for the following year. Vacation pay shall be based on the employee's present hourly rate of pay at the time of vacation. Vacation days cannot be used for penalty days. Any employee on the Seniority List of the employer as of January 1, shall be entitled to vacation time off on the following basis, service levels being measured as of January 1. If less than one (1) year, vacation time will be prorated after 90 day probationary period to be taken only after January 1 the following year. Each employee is required to complete a Vacation Request Form one (1) week prior to the requested time off. Vacation time is to be taken in full hour increments. Only one (1) full-time employee is permitted off at a time per department per shift. No vacation will be allowed during the week effecting the two days prior to our fiscal year-end and July 1 each year (physical inventory). April 1st is the deadline each year to sign up for seniority priority for vacation time. After that date, vacation time is granted on first come basis. Below is a schedule of paid vacation time:

1 year.....5 days	.....	(40) hours
2 years.....6 days	.....	(48) hours
3 years.....10 days	.....	(80) hours
10 years....12 1/2 days	.....	(100) hours
12 years....15 days	.....	(120) hours
20 years....20 days	.....	(160) hours

Qualified part-time employees may take time off without pay (won't effect bonus) per the above schedule provided a vacation request form is filled out as required.

ARTICLE XXV: SICK DAY PAY

All full time employees will be allowed three (3) sick days per year. Effective January 1, 1998, the total will be five (5). This will be prorated at two (2) hours/month of employment, retroactive following the thirty (30) day probationary period. These days can be accumulated from year to year, and will be paid off in pay based upon existing hourly rate at the time when used. These days cannot be used for penalty days. It is understood that sick days cannot be used the day prior to a holiday, nor the day after a holiday.

This is an over-all total of forty (40) as of January 1, 1998, work hours for sick days per year. We will allow the employee to use these in segments of hours if so desired, for physician appointments and such. However, each segment or occasion must be a minimum of one (1) hour in length.

ARTICLE XXVI: FUNERAL LEAVE POLICY

Employees will be entitled to three (3) days of straight time pay in the case of death to any member of the immediate family. Immediate family includes sons, daughters, wife, husband, father, mother, mother-in-law, father-in-law, brother or sister, grandparent or grandchildren. Two (2) days unpaid funeral leave for relative includes step-parents, grandmother-in-law, grandfather-in-law, brother-in-law, sister-in-law, aunt or uncle.. Proof of relationship and funeral attendance may be

required as condition for receiving the pay. Extra funeral days may be available to the employee, if necessary, without pay, not to exceed five (5) working days total absence.

Special circumstances which may warrant additional time off can be reviewed on a per individual basis. Refer then to "Leave of Absence" clause or Article XV, page 10 of this Agreement.

ARTICLE XXVII: JURY DUTY

Effective July 1, 1997, Jury Duty service will be reimbursed the difference between the employee' regular eight (8) hour pay (no overtime) and what actually is received for service on the jury. The employee must turn the service pay slip and verification in to his/her Supervisor, and it will be paid the following pay period. This applies to all shifts.

ARTICLE XXVII: ATTENDANCE BONUS

Any employee working without any absenteeism or tardiness during a calendar quarter basis will receive a bonus. This shall be issued in a separate payroll check with the usual taxes withheld. Only those employees who have reached their maximum rate of pay for their shift/dept. are eligible.

BONUS SCHEDULE = \$.30/hour and \$.45/hour overtime for all hours worked that quarter

ARTICLE XXIX: BIDDING ON JOBS

The company agrees to establish a bidding procedure covering the full-time positions for Injection Mold, Assembly I and Assembly II, Janitorial, Quality Control, Repair, and Warehouse departments. The position of truck driver and/or tool maker is one that does not allow bidding or bumping into other full-time departments. If an opening occurs in either position, it also will be filled from the outside.

This bidding procedure shall be based on seniority (position of Set-Up Trainee is not hired on seniority basis, but he/she must become a member of the committee if a full-time employee) and employee ability, and shall be as follows:

- A. Upon the occurrence of a vacancy in any of the aforementioned classifications, which vacancy may arise by reason of discharge, quit, death, retirement, or the necessity of having additional personnel in such classifications, the company shall post a notice requesting that the employees sign bids for such vacancies. Employees signing those bids shall be required to fill such vacancies if notified of award bid. (Cannot change your mind after bid is awarded.)
- B. That the company shall fill such vacancies as described in (A) above, strictly by plant-wide seniority of full-time UNION employees (members of B & F Committee).

- C. That if the company receives no bids for a vacancy from bargaining unit employees, the company may hire a new employee to fill such vacancy or with a deserving part-time employee, as management decides.
- D. That any employee who successfully bids into a vacancy, shall be allowed thirty (30) days to demonstrate his or her ability to perform the duties of the job in question. Once accepted, the employee shall be required to remain there for at least one year (1) unless successfully bidding into another position.
- E. For existing positions, full-time employees are permitted to bump (same department only) onto another shift - by seniority only - one (1) time per twelve (12) month period.
- F. That the company may exercise an option to continue the thirty (30) day period in (D) above, for an additional thirty (30) day period;
- G. That if the employee cannot perform the duties of the job in question during the thirty (30) day period mentioned in (D) above, or the additional thirty (30) period mentioned in (E) above, then the employee shall be returned to his or her previously held position, with no loss in seniority. Full-time employees who are required (will be offered by plant seniority) to fill in or relieve other departments for one hour or more at a time (except for breaks), will receive pay based on that department pay (if higher rate).
- H. Those employees going full-time into a new department will after thirty (30) days (upon management approval as per D above) receive top pay rate for that departmen

ARTICLE XXX: MEDICAL INSURANCE

Effective July 1, 1997, the company and the employee will share the cost of medical and dental insurance on the basis as show below for full-time employees:

Group	% Co. Covered
Health Ins. - HMO Base	
Employee Only	80% Employee Premium
Employee + 1 Pty	80% Employee + 50% Dependent Premium
Employee + Family	80% Employee + 50% Dependent Premium
 Dental Insurance	
Year 1/July 1, 1997 - 98	
Employee Only	50% Employee Premium
Spouse	0%
Each Child	0%

Year 2/July 1, 1998 - 99

Employee Only
Spouse
Each Child

50% Employee Premium
50% Dependent Benefit
50% Dependent Benefit

Year 3 (July 1, 1999 - 2000)

Same as Year 2

. However, this is a voluntary plan made available to the individual employee who desires it. (It is not compulsory). Employee responsibilities for the policies are paid for on a weekly payroll deduction plan based on insurance carrier's rates. These contributions will be deducted prior to tax deductions so as to reduce your taxable income under "Section 125" plan.

In the event of a medical/surgical disability which exceeds one week (five consecutive working days) verified with a physician's authorization (drug or emotional/mental disabilities not included), the Company will pay up to a maximum of eight (8) weeks medical insurance premiums per calendar year, following a one (1) week waiting period. Any illness or recovery period which lasts beyond eight (8) weeks, the medical insurance premiums will continue to be paid by the company, but will be reimbursed by the employee once they return to work through weekly payroll deductions

ARTICLE XXXI: B & F UNION EMPLOYEE COMMITTEE

The company recognizes the B & F Medical Employees Committee as the sole collective bargaining agent for the purpose of collective bargaining with respect to wage rates, hours of employment, and other terms and conditions of employment under this Agreement.

All present employees who are members of the Employee Committee of the effective date of the Agreement, shall remain members of the Employee's Committee in good standing as a condition of employment. All full-time employees who are hired hereinafter shall become and remain members in good standing of the aforesaid Employee Committee as a condition of employment on and after the thirty-first (31st) calendar day, following the beginning of their employment, or on and after the thirty-first (31st) calendar day following the effective date of the Agreement, whichever is the later. The failure of any full-time employee to become a member of the Employee Committee at such required times shall obligate the company to discharge such employee; the failure of any employee to maintain his Employee Committee membership in good standing as required herein shall obligate the company to discharge such employee.

All meetings and negotiations between the company and the Committee shall begin one-half (1/2) hour before the regular scheduled employee's quitting time. Any member(s) of the Committee required to miss work to attend such aforementioned meetings, negotiations, or arbitrations shall be compensated for all regular time lost for the purpose of attending such specifically designated Committee business.

ARTICLE XXXII: PAY RAISE SCHEDULE

Department	July 1997	Jan 1 1998	July 1 1998	July 1 1999
Assembly I and II Dept.	\$7.28	\$7.33	\$7.55	\$7.75
Injection Mold Dept.	\$7.83	\$7.88	\$8.10	\$8.30
Warehouse Dept.	\$8.63	\$8.68	\$8.90	\$9.10
Janitorial Dept.	\$7.28	\$7.33	\$7.55	\$7.75
Quality Control Dept.	\$7.83	\$7.88	\$8.10	\$8.30
Repair Dept.	\$8.63	\$8.68	\$8.90	\$9.10

When in-house Quality training is completed by Q/C personnel, they will receive an additional 20 cents per hour/anticipated completion date January 1, 1998.

Second Shift employees receive 20 cents/hour shift premium to the above.
Third Shift employees receive 25 cents/hour shift premium to the above.

For part time employees being promoted to full time they will receive full-time department pay upon completion of thirty (30) day probation period.

The Company agrees not to negotiate with individual Committee members in violation of the National Labor Relations Act nor to grant any bargaining unit employee any increase not called for by the collective bargaining agreement, unless the B & F Employees Committee agrees otherwise.

ARTICLE XXXIII: BIRTHDAYS

Employees will be allowed to take their birthdays off without pay. They are required to complete a Vacation Request Form forty-eight (48) hours prior to the requested time off to give Management sufficient time to plan so as not to halt/hinder production. Birthday time off will not be counted against the employee for bonus or absentee records, but their actual birth date only (not falling on week-ends) will be permitted under this plan.

ARTICLE XXXIV: CONCLUSION

The terms of this Agreement shall continue in full force and effect up to and including July 1, 2000. Sixty days prior to July 1, 2000, the Agreement will be open for negotiations regarding wages, which shall include such matters as benefits.

This Agreement shall continue in full force from year to year thereafter, except to re-open for the purpose of negotiations on economics, benefits, and the Employee Policy Manual, for the employee.

We have attempted to describe in this booklet, the employee's benefits and policies as they affect all employees of B & F Medical Products, Inc. This policy manual will be reviewed by the employees. They and the employer recognize each other's rights and responsibilities. Said agreement shall

remain in full force and it is understood that should present or future laws become wholly or partly in conflict with terms of this Agreement, the validity of the balance shall in no way be affected, but shall be deemed modified to conform with the existing laws.

B&F EMPLOYEE COMMITTEE
OFFICERS

/s/ Belinda Slaughter

Belinda Slaughter
President

/s/ Diane Orth

Diane Orth
Vice President

/s/ Vense Segura

Vense Segura
Secretary

/s/ Heidi Dunbar

Heidi Dunbar
Treasurer

B&F Medical Division
ALLIED HEALTHCARE PRODUCTS INC.

/s/ Eugenia Guseila

Eugenia Guseila
General Manager

/s/ David Kowalski

David Kowalski
Vice President
Administration/Production

_____ Date this Agreement was signed

June 16, 1997_____

Date Ratified by Membership

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Allied's life-saving products are utilized to restore health to individuals from generation to generation.

Allied Healthcare Products, Inc.
1997 Annual Report to Shareholders

Allied [Logo]

Around the globe, our products help bring people back to health.

1

Corporate Profile

Allied Healthcare Products is a leading manufacturer of medical gas construction equipment, respiratory therapy and emergency medical equipment and home health care products. The company's products are utilized in a wide range of medical settings, including pre-hospital emergency medical situations, hospital and sub-acute treatment and home health care.

Allied's medical gas construction systems include in-wall components for delivering medical gases throughout the hospital; central pumps and compressors for supplying vacuum and medical air; and headwalls, which are pre-fabricated with piping and electrical components to speed renovations and provide a decorative look for patient rooms and intensive care units.

Allied also offers a broad range of products used in respiratory care, including large volume compressors; adult, pediatric, infant and transport ventilators and calibrators; humidifiers; monitoring systems; oxygen concentrators; and nebulizers.

The company's emergency medical products include respiratory and resuscitation products, trauma and patient handling equipment and related items for ambulance companies, fire departments and emergency medical system volunteer organizations.

Allied's well respected brand names include Chemetron(R), Gomco(R), Timeter(R), Oxequip(R), Life Support Products(R), Bear Medical Systems(R), BiCore Monitoring Systems(R), B&F/Schuco(R), Hospital Systems(R) and Omni-Tech Medical(R).

Financial Highlights

(Dollars in thousands, except per share data) For years ended June 30,	1997	1996	% Change (1997-1996)	1992	Five Year Compound Annual Rate (1997-1992)
OPERATING RESULTS					
Net sales	\$118,118	\$120,123	(1.7)%	\$58,603	19.2%
Income (loss) before income taxes	(5,949)	3,300	(280.3)	10,645	--
Net income (loss)	(4,521)	1,827	(347.5)	5,451	--
Net income (loss) as a % of sales	(3.8)	1.5%	--	9.3%	--
FINANCIAL POSITION					
Working capital	\$ 18,743	\$ 38,030	--	\$16,605	--
Total assets	126,343	136,760	--	38,167	--
Total debt	46,932	52,882	--	2,297	--
Shareholders' equity	59,365	63,886	--	27,921	--
Current ratio	1.57:1	2.69:1	--	3.11:1	--
PER SHARE DATA					
Net income (loss)	\$ (0.58)	\$ 0.25	(332.0)	\$ 0.76	--
Book value	\$ 7.61	\$ 8.19	(7.1)	\$ 3.57	--

Letter to Shareholders

Management is focused on bringing our company back to financial health.

Dear Shareholders:

Fiscal 1997 represented a period of great disappointment for Allied Healthcare Products. Results were adversely impacted by cost and margin pressures, a significant increase in interest expense, as well as disruptions caused by a computer conversion and a 19-day work stoppage at the company's St. Louis facility. However, the worst appears to be over and Allied looks forward to a very different fiscal 1998.

Subsequent to year end, the company refinanced its debt through a new \$46.0 million credit facility with Foothill Capital Corporation, a division of Norwest Bank, and completed the placement of \$5.0 million in subordinated debt for a total financing of \$51.0 million. The proceeds from the new financing were used to repay the company's outstanding debt with its previous

[PHOTO]

bank group, as well as related fees and expenses, and provide additional liquidity.

Allied's pace of business has improved, with new orders for fiscal 1997 up 4.3 percent over a year ago. The company's backlog reflects a strong mix of higher margin products and strength in medical gas construction, medical gas equipment and ventilation products.

The company received FDA clearance for its Bear Cub(R) 750 ventilator, which is now available in the U.S. market. Allied's international business remains strong, and now accounts for 29 percent of total revenues. Additionally, Allied's new office in Beijing will enable the company to serve a growing customer base in an important region of the world.

[PHOTO]

The BEAR CUB(R) 750 infant ventilator offers integrated synchrony and volume monitoring, dual flow capability, an internal battery and a graphics package.

1. Improving Costs and Margins

The health care environment is quite different today due to a variety of factors, including limits on Medicare reimbursements, consolidation of hospitals and changes in product mix. Within these constraints, management is continuing to review each of its major product lines and taking appropriate action to help improve margins. These actions include analyzing discount schedules and overall product pricing, capital expenditure projects to improve efficiency, and changes in plant design and layout. Management expects to realize premium pricing as a result of its ongoing efforts to improve products, customer service and the ability to offer same-day shipping of key products.

Allied's outside sales force has been consolidated, with a reduction in fiscal 1997 to 66 from 79 employees. These actions, coupled with a greater reliance on distributors, are expected to provide Allied with better sales coverage at lower fixed costs. The company's new financing has already had a positive impact by lowering interest costs, with better asset turnover generating further reductions. Management is continuing to examine all line item expenses and looks forward to further opportunities to reduce costs and improve margins.

Despite a difficult operating environment, Allied made investments in capital improvements to modernize its St. Louis and Toledo facilities, converted to a new MIS system at its St. Louis facility and consolidated the company's field sales force. The outside sales force for ventilation products was combined with the company's traditional hospital products sales force. The company's home care sales efforts were strengthened by placing more emphasis on telemarketing and the use of manufacturers' representatives.

These initiatives, combined with the completion of the new credit facility, will enable Allied to focus more attention on improving operations and returning the company to profitability.

[PHOTO]

Allied's sales efforts are supported by a network of dealers, agents and U.S. exporters who distribute products throughout the world -- including the United States, Canada, Mexico, Central and South America, Europe, the Middle East and the Far East.

2. Managing Assets

Improving the management of assets is essential to Allied's return to profitability. At June 30, 1997, the company's accounts receivable and inventory balances were \$23.1 million and \$26.1 million, respectively -- representing two of Allied's largest assets.

Receivables outstanding improved from the prior year. The company's focus on improving collection of accounts receivables and days sales outstanding is attributable to initiatives implemented during fiscal 1997. These initiatives included:

- * Increased discipline in credit approval, enforcement of international letters of credit and other security documentation, and improvements in communications with delinquent accounts;
- * Consolidation of credit and collection efforts for the home care and construction market, which provides important administrative synergies and increases the frequency of customer contacts; and
- * Upgrading the credit and collection department through the addition of professional credit analysts.

Improvements in inventory management during fiscal 1997 benefited from:

- * Better coordination of operations through upgraded information technologies, including planning, shop floor tracking and work order completion;
- * Investments in plant modernization at the company's St. Louis and Toledo facilities, which have shortened production cycle times and improved quality;
- * A focus on improved forecasting of product mix, with an emphasis on producing and stocking those items which constitute 80 percent or more of total customer requirements; and
- * An inventory reduction of low volume products.

During fiscal 1997, Allied continued efforts initiated in the prior fiscal year to strengthen the company's management team, while developing strategic programs to return the company to respectable levels of performance.

In November 1996, Uma Nandan Aggarwal joined Allied as president and chief executive officer, with a commitment to improve operations, develop new technologies and products, and strengthen the company's overall marketing efforts. David Grabowski, previously vice president, international, was promoted to the position of vice president, sales and marketing.

[PHOTO]

The Gomco(R) Portable Aspirator offers health care professionals the ability to perform suctioning requirements in a variety of settings, including emergency, acute care, sub-acute care and home care.

3. Upgrading Service

Today's competitive health care environment involves managing a variety of related activities, including a commitment to customer service, a focus on sales and marketing, an emphasis on production efficiency, FDA compliance and new product development.

Allied's commitment to quality is well recognized throughout the health care industry, with products offering high performance standards. The company is currently working to achieve ISO 9001 certification at its St. Louis operation in the near future. ISO 9001 certification is a general manufacturing quality standard established by the European Community, and EN 46001 is the specific quality standard required for medical device manufacturers selling products in Europe. The European Community is in the process of requiring all medical device manufacturers to comply with uniform quality standards by 1998. Allied intends to meet or exceed these requirements for all of the company's products.

In 1995 Bear Medical Systems(R), Inc. was granted both ISO 9001 and EN 46001 certifications from the National Standards Association of Ireland. It is believed that Bear Medical was the first U.S. ventilator manufacturer to receive both certifications.

Customer satisfaction requires a commitment to after-sales service support, staffed by cross-trained representatives who are responsive and technically knowledgeable about a variety of products. In addition, Allied employs a network of dealers to service customers, along with field service personnel, in-house repair and technical support capabilities.

In today's medical environment, hospitals have greatly reduced their inventories, placing increased pressure on manufacturers to deliver products in shorter periods of time. The company's forecasting system has been updated to better satisfy customer orders with off-the-shelf availability of key products.

Subsequent to year end, John Weil, president of St. Louis-based Clayton Management Company, was appointed to the company's board of directors, increasing the board to nine members. His financial background and experience serving on the boards of several other publicly traded companies will be a valuable addition as management continues to improve operations and return Allied to profitability.

Financial Position

Net sales for fiscal year 1997 were \$118.1 million compared with \$120.1 million in the prior year. For the 12-month period, Allied reported a net loss of \$4.5 million, or \$0.58 per share, compared with net income of \$1.8 million, or \$0.25 per share, in the prior year.

[PHOTO]

The Chemetron(R) and Timeter(R) flowmeters have been redesigned to more effectively utilize space with the metering knob located in the front.

4. Product Enhancement

Customers worldwide have come to expect high quality products from Allied, supported by innovative and aggressive product development programs. As part of this effort, during fiscal 1997, the company introduced a new Mini Vacutron,(R) the first in a series of suction regulators to be offered in a reduced size, with enhanced durability and readability.

Other product enhancements in fiscal 1997 included:

- * A Hybrid Flowmeter redesigned with front controls for better space utilization and an extended warranty;
- * OptiVac(TM) by Gomco(R), featuring both AC and DC operation for easier portability; and
- * A patented medical gas Connect II(TM) Outlet, which combines the outlet configurations of the market leaders -- Chemetron(R) and competitive gas outlets.

Positioning for Tomorrow

Management is continuing its efforts to improve operational efficiencies, implement plans to reduce costs and focus on enhancing results throughout the organization.

In summary, fiscal 1997 constituted a year of transition for the company with a focus that included:

- * Resolving the company's financial situation with its former lenders and establishing a new foundation with Foothill Capital Corporation;
- * Reducing manufacturing costs through plant modernization at two primary facilities;
- * Reducing selling costs through sales force consolidation;

[PHOTO]

The new Mini Vacutron(R) has been greatly reduced in size for better space utilization in acute care and non-acute care facilities.

4. Product (continued from page five) Enhancement

Allied expects to introduce several additional new and enhanced products in fiscal 1998, encompassing the company's entire market spectrum including hospital construction, respiratory therapy, emergency medicine and home health care. Products expected to be introduced in the near future include:

- * The RespiCal(TM) calibration analyzer, a new version of the Timeter(R) RT-200;

[PHOTO]

Building on the RT200's time- tested ability, the RespiCal(TM) Calibration Analyzer delivers expanded capabilities, greater flexibility and easier operation.

- * The Life Support Product's(R) Rhino Pressure Regulator, featuring an innovative patent-pending protective aluminum shroud which is shock resistant and designed to prevent gauge damage and contamination;
- * Streamlined modular trauma packs, featuring a variety of styles to transport critical equipment tools to emergency care situations; and

[PHOTO]

The new LSP Rhino Pressure Regulator features a patent-pending aluminum shroud designed to prevent gauge damage and contamination.

* Improving the use of working capital and reducing total debt by \$6.0 million; and

* Enhancing domestic and international distribution.

On behalf of all the employees at Allied Healthcare Products, we appreciate your support during this difficult period and look forward to positive changes in fiscal 1998.

Sincerely,

/s/ Uma Nandan Aggarwal

/s/ Dennis W. Sheehan

Uma Nandan Aggarwal

Dennis W. Sheehan

President and Chief Executive Officer

Chairman

[PHOTO]

The Connect II(TM) medical gas outlet station incorporates a patented design to accept both Chemetron(R) and competitive adapters -- a distinct advantage in hospital settings, eliminating the need to stock both adapter styles.

[PHOTO]

Our trauma bags are designed to allow immediate access to critical components in the treatment of injured patients during emergency situations.

* Newly designed suction canisters used throughout the hospital setting to collect secretions and fluids during surgery and post-operative care -- utilizing a snap-on lid for ease of assembly, a self-sealing filter for overflow protection and a variety of ports to support special procedures.

[PHOTO]

Allied's new collection canister is scheduled for release in the second quarter of fiscal 1998, incorporating a redesigned snap-on lid for easy assembly and a self-sealing filter for improved flow.

Corporate Information

Directors

Dennis W. Sheehan
Chairman of the Board
Allied Healthcare Products, Inc.
St. Louis, Missouri
Chairman, President and
Chief Executive Officer
AXIA Incorporated, Lombard, Illinois

Uma Nandan Aggarwal
President and Chief Executive Officer
Allied Healthcare Products, Inc.
St. Louis, Missouri

David A. Gee
President Emeritus
The Jewish Hospital
St. Louis, Missouri

Samuel A. Hamacher
Executive Vice President
Harbour Group Industries, Inc.
St. Louis, Missouri

James C. Janning
President
Harbour Group Ltd.
St. Louis, Missouri

Robert E. Lefton, Ph.D.
President and Chief Executive Officer
Psychological Associates
St. Louis, Missouri

Donald E. Nickelson
Vice Chairman
Harbour Group Industries, Inc.
St. Louis, Missouri

William A. Peck, M.D.
Vice Chancellor of Medical Affairs
Washington University
St. Louis, Missouri

John D. Weil
President
Clayton Management Company
St. Louis, Missouri

Officers

Uma Nandan Aggarwal
President and Chief Executive Officer

Barry F. Baker
Vice President, Finance and
Chief Financial Officer

David A. Grabowski
Vice President, Sales and Marketing

Gabriel S. Kohn
Vice President, Engineering

Annual Meeting
The Annual Meeting of Shareholders of Allied Healthcare Products, Inc. will
take place on Monday, November 17, 1997, at 10 a.m. Central Time, at The
Daniele Hotel, 216 N. Meramec, Clayton, Missouri 63105.

Transfer and Dividend Disbursing Agent
Chase Mellon Trust Company
St. Louis, Missouri

Independent Accountants
Price Waterhouse LLP
St. Louis, Missouri

Legal Counsel
Dickstein Shapiro Morin & Oshinsky LLP
Washington, D.C.

Investor Relations
Gary S. Maier, Managing Director
Pondel Parsons & Wilkinson
Los Angeles, California
(310) 207-9300

Common Stock Information
The common stock is traded on the Nasdaq National Market under the
symbol AHPI.

1997	High	Low

September quarter	\$10 1/4	\$ 6 1/4
December quarter	7 3/4	6 3/8
March quarter	9 1/4	7
June quarter	7 1/8	5 3/8
1996	High	Low

September quarter	\$18 3/4	\$15 1/4
December quarter	19 1/2	15 1/2
March quarter	16 3/4	10 1/2
June quarter	13 1/4	8 7/16

Allied Healthcare Products, Inc. began trading on the Nasdaq National Market under the symbol AHPI on January 14, 1992, following its initial public offering. As of September 18, 1997, there were 261 shareholders of record.

Products

Medical Gas Construction Equipment

Gas Outlets
Digital Gas Alarms
Zone Valves
Medical Gas Manifolds
Ceiling Columns
Hose Assemblies
Medical Air Compressors
Vacuum Pumps
Air Dryers
Headwalls
Rail Systems
Patient Consoles
Neonatal Service Units
Light Fixtures

Respiratory Care Products

Critical Care Adult/Pediatric Ventilators
Critical Care Infant Ventilators
Transport Ventilators
Pulmonary Monitors
Humidifiers
Air Compressors
Tube Dryers
Calibration Analyzer
Flowmeters
Timers
Oxygen Regulators
Oxygen Cylinders
Spirometers
Mist Tents
Suction Regulators
Portable Suction Equipment
CO2 Absorbent
Disposable Cannulas
Disposable Masks
Disposable Tubing
Disposable Nebulizers
Disposable Circuits
Disposable Suction Canisters
Reusable Suction Canisters
Nebulizer Compressors
Breast Pumps
Adapters/Fittings

Emergency Products

Hand-Held Ventilators
Demand Valves
Portable Resuscitators
Aspirators
Immobilization Boards
Trauma Air Pants
Burn Kits
Disposable Bag Mask Resuscitators
Extrication Devices

Form 10-K

A copy of the annual report on Form 10-K for the year ended June 30, 1997, which was submitted by Allied Healthcare Products, Inc. to the Securities and Exchange Commission, is included within. Additional copies can be obtained by any shareholder of the company at no charge upon request in writing to:

Barry F. Baker
Vice President, Finance and
Chief Financial Officer
Allied Healthcare Products, Inc.
1720 Sublette Avenue
St. Louis, Missouri 63110
(314) 771-2400
fax (314) 771-0650

Allied [Logo]

Allied Healthcare Products, Inc.
1720 Sublette Avenue
St. Louis, Missouri 63110
(314) 771-2400
fax (314) 771-0650

SUBSIDIARIES

Bear Medical Systems, Inc. (California)

1. BiCore Monitoring Systems, Inc. (California)
2. Bear Medical Systems AG - 50 shares outstanding of which Bear owns 47 shares
3. Bear Medical Systems Foreign Sales Corporation (U.S. Virgin Island)

Hospital Systems, Inc. (California)

Life Support Products, Inc. (California)

B&F Medical Products, Inc. (Delaware)

Allied Healthcare Products Foreign Sales Corporation (Barbados)

Omni-Tech Medical, Inc. (Kansas)

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (No. 33-99960, No. 33-86019, No. 33-45147, No. 33-45146 and No. 333-16489) of Allied Healthcare Products, Inc. of our report dated August 13, 1997 appearing in the 1997 Annual Report to Shareholders of Allied Healthcare Products, Inc. on Form 10-K (which report and consolidated financial statements are included herein). We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page S-1 of this Form 10-K.

Price Waterhouse LLP

St. Louis, Missouri
September 25, 1997

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of Uma N. Aggarwal and Barry F. Baker as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1997 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ Donald E. Nickelson

Donald E. Nickelson

Date: August 15, 1997

POWER OF ATTORNEY

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/s/ David A. Gee

David A. Gee

Date: August 4, 1997

POWER OF ATTORNEY

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/s/ Samuel A. Hamacher

Samuel A. Hamacher

Date: August 7, 1997

POWER OF ATTORNEY

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/s/ James C. Janning

James C. Janning

Date: August 7, 1997

POWER OF ATTORNEY

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/s/ Dennis W. Sheehan

Dennis W. Sheehan

Date: August 4, 1997

POWER OF ATTORNEY

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/s/ Robert E. Lefton

Robert E. Lefton

Date: August 6, 1997

POWER OF ATTORNEY

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/s/ William A. Peck

William A. Peck

Date: August 2, 1997

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of Uma N. Aggarwal and Barry F. Baker as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1997 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ Uma N. Aggarwal

Uma N. Aggarwal

Date: August 19, 1997

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints each of Uma N. Aggarwal and Barry F. Baker as his true and lawful attorney-in-fact and agent, each with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the 1997 Annual Report on Form 10-K of Allied Healthcare Products, Inc., and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite as fully to all intents and purposes as he might or could do in person, and ratifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

/s/ John D. Weil

John D. Weil

Date: September 25, 1997

(Replace this text with the legend)

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re#br3cs 1,000
U.S. dollars

3-MOS
JUN-30-1997
APR-01-1997
JUN-30-1997
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	1,225	
	26,053	
	51,679	26,421
	5,572	
	126,343	
32,937		34,041
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	0	
	101	
126,343		59,264
	30,129	
	30,129	
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	22,066	
	9,215	
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	(1,017)	
(3,485)		
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		0
	(3,485)	
	(0.45)	
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